The MAGAZINE of WALL STREET

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Industrial Earnings and Dividends

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Will War Taxation Affect Dividends?

HOW THE NEW LEVIES WILL BEAR ON EARNINGS

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THE OUTLOOK

Tax Payments Easily Met—Position of Banks Improved—New Financing—Bonds and the Income Tax—Fixed Prices—The Market Prospect

RECENT markets have been characterized by declines in bonds on which interest coupons are paid after deduction of the normal income tax and by moderate advances in the more speculative class of stocks. Tax-free bonds have also advanced. Other investment issues have remained substantially stationary, and most railroad stocks have shown but little change in prices.

Taxes for 1917 Easily Paid

ONE of the most encouraging features is the surprising ease with which the 1917 tax payments due in June were met. This is all the more remarkable because these payments coincided so closely with the raising of the money for the Third Liberty Loan. The result has afforded an impressive demonstration of the financial strength of the United States.

The matter was skillfully handled by the Treasury. The issuing in advance of interest-bearing certificates of indebtedness not only provided the Government with funds to be used before the receipt of the taxes due June 15, but it also afforded taxpayers an attractive short term investment for the money being accumulated to meet the taxes. The result was that more than half, or about $1,600,000,00, of the taxes due were practically paid in advance through the purchase of these certificates, all of which mature June 25.

To meet the remaining $1,400,000,000 of taxes, many loans were of course negotiated with the banks, but on the whole, the extension of loans was much smaller than would naturally have been expected. In the meantime, the banks had conserved their resources to meet the anticipated demand, especially by cutting down their time loans on stock exchange collateral.

When it became apparent that the taxes were going to be met without ruffling the money market, there was a general feeling of satisfaction and encouragement in investment circles, and a somewhat greater disposition on the part of the banks to extend loans on collateral. The speculative market has responded to this feeling.

Banks' Reserve Position Improved

THE payment of these taxes has caused a great volume of deposits to be shifted from private ownership to Government ownership. The Government will, of course, draw on the deposits to meet its expenses as may be necessary, but for the present the banks will continue to carry a large amount of Government funds.

Against these Government deposits the banks are not required to hold reserves, while against private deposits reserves are necessary. Therefore, the reserve position of the banks is decidedly strengthened by the tax payments. This will enable the banks to assume a more liberal attitude toward loans for several months to come.

There will also be a temporary relief from the Government's demands for capital, although it is true that new issues of Treasury certificates of deposit will at once be begun. These are to pay 4½% interest, which raises the query whether the next bond issue will also bear that rate. Secretary McAdoo has stated that he hopes to avoid any further advance in the rate of interest on Government bonds; but on the other hand, the persistent discount on the Liberty bonds now outstanding, in spite of the creation of a special fund which can be used to maintain their prices, strongly suggests that a higher rate or a greater tax exemption may be found necessary.

People will buy war bonds at par from motives of patriotism, but when some of those bonds have to be sold in the open market they naturally come into comparison with other available investments and bring only the price to which they are legitimately entitled by strictly investment considerations. And there is no sound reason why the Government should go on selling bonds at an interest rate below that to which capital is normally entitled under present conditions of demand and supply.

New Financing Now Possible

FOR some time past it has been almost impossible to sell any considerable amount of new corporation securities, although many companies are in need of cash for purposes directly or indirectly connected with the war. But with the relief of the pressure on capital which has been due to the Third Loan and the June tax payments, it is becoming possible to raise money, though at a relatively high rate of interest.

The $60,000,000 of 6% Armour & Co. convertible debentures are being offered to yield the investor 7¼% for maturities from 1920 to 1922. In view of the known strength of the company, this is, of course, a high rate of interest, yet a short time ago the Procter & Gamble notes were placed at a still higher yield. The tendency thus shown is decidedly encouraging.

Further new financing may be expected, and this, taken in connection with the Government's sales of certificates of indebtedness, will doubtless prevent the placing of any large quantity of time money at the service of the speculative division of the market. But even so, the general situation will be somewhat easier and the effect on sentiment will be favorable.

Bonds and the Proposed Income Tax

THE Secretary of the Treasury has recommended a normal income tax "higher than 12%" on unearned incomes, and a rate of 16% is being tentatively considered in Congress. That would mean that a bond interest coupon for $5.00 would net the investor only $4.20 after the tax, as compared with $4.80 under the present tax, or a drop of 12½% in the net value of the interest coupon.

If the price of the bond were to fall in like proportion, a bond now selling at 80 would fall to 70. That will not happen—at least, not as a result of this tax—because the tax is temporary, for war purposes only. But the necessary result of the income tax prospect has been lower prices for those corporation bonds on which interest is paid after deduction of the normal income tax. On many bonds, however, interest is paid without deduction of this tax, and their prices have been unaffected by the proposed change. This difference is likely to continue until the new tax becomes law, by which time its effect on the different bonds will doubtless have been practically discounted.

The Fixed Price Policy

THERE have been numerous evidences of industrial friction in the effort of the administration to apply the fixed price program. It could not be otherwise, since the effort has been to fix something which is, in the nature of the case, changeable. This, however, should not arouse criticism of the general policy pursued. War makes necessary all sorts of radical changes and readjustments, and it could not be expected that all of them could be made with perfect smoothness.

There are many reports to the effect that business is to be gradually and quietly freed from the rule of the fixed price. Such reports cannot be confirmed, but it is not

unreasonable to assume that various fixed prices will be revised upward as conditions change. The Government had to begin its war preparations on a market which had been almost swept bare of war supplies by the Allies. Our new and tremendous demand found only a trifling immediate supply. Under such conditions normal price-making was impossible. Price-fixing appeared to be the only answer.

That situation has in part disappeared. In some lines, supply and demand are again approaching a balance. In others, price-fixing was not enough, and the Government has had to assume a direct control over distribution, notably in transportation and in steel production. With the change in conditions, price-fixing becomes far less important.

A heavy war profits tax, such as is now proposed, will afford another reason for relaxing vigilance over prices. If the Government is to get three-quarters of the profits which may result from raising the price of the product, it can afford to look upon a reasonable advance with considerable equanimity. In fact, this is certain to be the result of war profit taxation on a scale comparable to that in England.

On the whole, therefore, it is entirely probable that during the remainder of the war we shall hear much less about price-fixing as a cure for economic ills.

The War Situation—Crops—Gold Imports

IN investment circles there is no loss of confidence as to the result of the year's fighting in France. The Allies choose to play a defensive game until America's weight can be thrown into the balance, and their task is likely to become easier as the summer advances. The economical method of defending a long line involves retirement before surprise attacks, but there is no reason to doubt that Foch is and will remain in control of the situation.

The splendid crop promise is an important element of strength in the investment situation. We certainly need these crops. There is a possibility for a one billion bushel wheat yield, and that quantity would do much to relieve the situation. With new ships now coming steadily off the ways, there is every prospect that we shall be able to feed our allies provided we practice proper economy at home.

The gold imports from Canada are of minor importance. Undoubtedly the British Government has gold in reserve somewhere. The production of the African mines amounted to $220,000,000 last year. This new gold has not shown up in the Bank of England reserves.

Britain can send us gold if we need it, but there is no present probability that we shall need it. Our own gold supply is adequate to meet the situation, in view of the fact that improvements in our banking methods enable us to get along with much smaller reserves of gold than were formerly required.

The Market Prospect

UNITED STATES LIBERTY 3½s, all municipal bonds and the new Farm Loan bonds, being tax exempt, are likely to continue strong. The second and third Liberty Loans are exempt from the normal income tax only, but this exemption should be sufficient to cause them to be well maintained, and the same is true of corporation bonds on which interest is paid without deduction of normal income tax. Bonds which pay interest after deduction of the tax will probably decline somewhat.

An increase in the normal income tax will apply on the income of the railroads, since Government control does not relieve them of war taxes. That is, the tax will reduce the income guaranteed the roads under their contract with the Government. But it is not likely that the tax will affect any well protected dividends on railroad stocks.

The general tendency of the speculative section of the market continues to be upward, but it is to be expected that further advances must be gradual. Our leading industrial companies can make good profits even after the proposed war tax, but the situation does not warrant any spectacular boom.

June 17, 1918.

Our Point of View

On Vital Factors in Finance and Business

Juggling With Billions

WE are getting so accustomed to billions that figures have lost their meaning. Secretary McAdoo plans to expend $24,000,000,000 in the next fiscal year. That is about $1,100 for every family in the country, rich or poor, black or white, on Fifth Ave. or in the Tennessee mountains. And of this he proposes to raise $8,000,000,000 by taxation, or something like $350 from each family.

A part of these expenses will consist of loans to our allies; a part will represent the capital of the War Finance Corporation; another part the purchase of Farm Loan bonds. These and other expenditures will really mean the permanent investment of capital.

Of our actual expenditures, as distinguished from investments, $8,000,000,000 is likely to be half, and perhaps more than half, for it is uncertain whether enough materials and labor can be obtained to permit the Government to use this tremendous sum.

* * *

Forcing the Financial Speed Limit?

Is not the Secretary going a little too fast in this proposal? We could, perhaps, pay these taxes, for we are a rich country. But is there any sound reason why we should now assume the heaviest burden of taxation ever imagined? Would it not be more reasonable to raise, let us say, one-quarter through taxes and three-quarters by sales of bonds?

We are fighting this war, a war so great and so savage that others are scarcely worthy of mention in comparison, in order to preserve the blessings of liberty and democracy for future generations. Inevitably we must bear almost the whole burden of the loss of life and property and the waste of our productive capacity—for posterity is not here to bear it. Posterity will not grumble at paying part of the money bill.

Moreover, the interest on Government bonds is not to be pictured as a crushing load for the future. For the people will own the bonds and will be paying interest to themselves. The payment of interest will be a redistribution of money, not a loss.

Nor will those bonds represent a permanent levy for the benefit of the capitalist class—if there is such a class in the purchase of Government bonds. The capitalist who is now paying 100 for 4¼% Liberty bonds could just as well buy corporation bonds to yield him 6, 7 or 8%. He is cutting down his income by buying Liberty bonds.

* * *

Where Taxes Come From

"Increased taxes are derived from increased incomes and increased business profits," says the circular of the National City Bank of Chicago. Is it not wiser to adjust the load to the strength of the horse, rather than to require the horse to haul a certain predetermined fraction of the whole weight to be moved?

Our sole object now is to win the war. We are ready to make any necessary sacrifice. We are ready for high taxes—we are even anxious to pay them, to do our part toward the war. The only question is one of method. The problem is, What rate of taxation will give us the strongest punch?

High taxes mean high prices. The higher the taxes the higher the prices. We are trying to hold down prices by fixation. The effort is only partly successful, and with such taxes as the Secretary proposes it will be still less successful. And high prices mean a high cost of living, then demands for higher wages to meet it, and the higher wages mean a still higher cost of living, and so on.

America does not shrink from the burden of the war, however heavy and however long. But Congress should adjust that burden so that it may be carried without unnecessary depletion of our national strength.

* * *

A Thrice Exploded Fallacy

It seems incredible that the guaranty of bank deposits should again be seriously discussed. It is an exploded fallacy. It is not insurance, for insurance is against accident or the "act of God"—and the soundness of a bank is not an accident, but purely a question of honesty and management. Why should the Government require the honest banker to guarantee the deposits of the dishonest?

It is asserted that such a guaranty would bring millions of "hoarded money" into the banks. Those millions are purely mythical. They exist only in the imaginations of theorists. If they ever existed they have gone into Postal Savings or Liberty bonds.

* * *

Harnessing a High Power Explosive

This War Finance Corporation will require careful handling. Prominent bankers are urging that the corporation extend its loans for war purposes direct to borrowers, instead of lending to banks which in turn lend to the industries requiring such aid. The corporation has the power to do that, but the plain intent of the law is that it should not be done unless the banks are unable or unwilling to do the financing, with the aid of the corporation.

Direct loans would, it is true, remove complications, but they would also increase the danger of injudicious, unsafe, or over-extended loans. The Government cannot come to the aid of every company which wants money any more than it could supply every individual who wants it. Unlimited Government capital on tap for the asking would bring industrial intoxication very quickly.

The directors of the new corporation are wise in making haste slowly. Dynamite is useful, but it has to be handled carefully.

Will War Taxation Affect Dividends?

How Prospective Govt. Levies Will Affect Earnings—British Taxation—Important Question of Cash

By BENJAMIN GRAHAM

FINANCIAL writers should approach the subject of war taxes in a humble and contrite spirit, remembering their ill-starred predictions of last October when the present act was passed. In those days no publication was complete without a brief list of the 1917 taxes to be paid by the larger corporations—most of which figures can now be mildly described as inaccurate. For example, statisticians were agreed upon a tax of $110,000,000 for U. S. Steel and about $10,000,000 for Utah Copper—in the first case *one-half,* in the other *double* the companies' subsequent figures. If such bizarre prophecies were made then, when both the earnings and the revenue act were fairly well determined, what dangers must attach to a discussion of 1918 taxes at this stage —when the profits and the law which levies on them are alike concealed in the future? Yet the question of increased imposts is so important to investors that some general consideration of the question—though confessedly premature and fragmentary—may still have its utility.

Stockholders would dearly like to know: (1) How much taxes will be increased; (2) How the new rates will compare with earnings; and chiefly (3) How they will affect dividends. The answer to the first query has been officially suggested by Mr. McAdoo, who calls for double the 1917 levies, to produce a total revenue of $8,000,000,000. For Congress, to hear is to obey; eight billions is now the watchword. But how were last year's $4,000,000,000 raised? The Treasury budget for 1917-1918 classified the year's receipts as shown in Table I.

Direct taxes were thus expected to supply over $2,400,000,000 or 64 per cent. of the total revenue. Numerous statements have been made to the effect that the returns indicated a much larger aggregate than the budget estimates—the most recent figure having been set at $2,750,000,000. Since much criticism has been directed against the framers of the law for failing to gauge accurately the results of their legislation, an examination of some of the data at hand bearing upon the taxable income of the United States corporations may be of interest.

Probable Amount of Taxes

The writer has studied the reports of eighty representative companies, the securities of which are listed on the New York Stock Exchange, and in Table II presents a summary of their exhibits for 1915, 1916 and 1917. Moreover, the last report of the Commissioner of Internal Revenue gives the total earnings in 1915 and 1916 of all corporations in the United States (of which 204,000 paid taxes for 1916). I have carried out the figures for 1917 by applying about the same percentage of increase as is shown by the eighty companies whose 1917 reports are available. It has been thought best to exclude the U. S. Steel returns from this computation, since its enormous size would obscure the showing of the other diversified enterprises which together afford a better indication of the state of general industry.

According to our figures the 1917 taxes will have been levied against a total corpo-

TABLE I—BUDGET ESTIMATE OF U. S. REVENUES FOR THE FISCAL YEAR 1917-18.

I—Indirect Taxes	
A—Custom duties	$220,000,000
B—Internal revenue—ordinary	448,000,000
C—Internal rev.—war taxes	527,000,000
D—Miscellaneous	273,800,000
Total indirect	$1,468,800,000
II—Direct Taxes	
A—Individual income	$666,000,000
B—Corporation income	535,000,000
C—Excess profits	1,226,000,000
Total direct	$2,427,000,000
Total revenue	$3,895,800,000

rate income of around twelve billion dollars. If the 18½ per cent. rate of excess profits tax shown by our eighty companies were applied to the whole country, it would raise no less than $2,120,000,000. This figure is doubtless much too high, since the smaller companies are sure to pay a lower rate of tax than the larger enterprises. But after making due allowance for this fact, it is evident that the Treasury's estimate of $1,226,000,000 (which includes excess profits tax payable by individuals and partnerships) must have been far below the mark. We are inclined to place the 1917 excess profits tax on corporations alone in the neighborhood of a billion and a half. In any case, the estimate of $535,000,000 for the corporate income tax is obviously inadequate, since it must have been derived by applying the 6 per cent. rate to the *1916* returns of $9,000,000,000 net income—without making any provision for the increase in 1917 earnings over the previous year.

The above discussion is pertinent, since if the present tax rates turn out to raise more than anticipated, they will require a less drastic increase to bring their results up to the new requirements. Our reasoning suggests that the 1917 income and excess profits taxes—individual and corporate—will pass three billions, of which the companies will contribute about 70 per cent. or $2,100,000,000. If now we assume that these direct taxes will be called on to raise five billions of the eight to come from all sources, then the corporations will be politely relieved of, say, $3,500,000,000; this is just ***two-thirds more*** than we estimate their payments for 1917.

How Taxes Compare with Earnings

We have next to inquire how these taxes will compare with corporate earnings in 1918—the answer depending of course on the relation of this year's profits to those of 1917. From the various returns already made for the first quarter of 1918 it would appear that fixed prices and rising costs are reducing the income of the coppers; but that most other industries (e. g. steel, machinery, chemical) are doing quite as well as last year—at least after making allowance for the January weather. The tremendous Government expenditures projected are themselves an important factor making for a greater volume of business; and the authorities are apparently leaning toward a policy of continued high prices, large profits and heavy taxes. Observe in this connection that the increase in the earnings of our eighty companies for 1917 over 1916 was so marked as to *more than compensate* for the huge Government levies—rendering ridiculous the once prevalent fear of vanishing prosperity. Because of this experience the stock market is awaiting the new taxes in a calmer mood.

There is reason to believe therefore that corporation profits subject to 1918 taxes will be equal to or at least not much below the 1917 figures. This brings us to the last and most important question: How will increased taxes affect dividends? The reader would like to know specifically how much the taxes of "his" companies could be raised without necessitating a cut in dividends. In Table III this information is supplied for *every* listed dividend paying industrial which has reported its taxes for the 1917 calendar year. The first column

TABLE II—COMPARATIVE INCOME ACCOUNT OF U. S. CORPORATIONS.

	A 81 Representative Companies	B 80 Companies (Excluding U. S. Steel)	C All U. S. Corporations
Net income, 1915	$386,600,000	$310,800,000	$5,847,000,000
Net income, 1916	829,900,000	558,400,000	9,086,000,000
Per Cent increase, 1916 over 1915	115%	80%	70%
Net income, 1917 before taxes	1,203,600,000	745,900,000	*12,000,000,000
Per Cent increase, 1917 over 1916	45%	34%	31%
Excess profits tax, 1917	357,300,000	138,000,000	*1,500,000,000
Income tax, 1917	50,600,000	36,400,000	630,000,000
Balance after taxes, 1917	795,700,000	571,500,000	9,870,000,000

*Estimated.

TABLE III—THE RELATION OF TAXES TO DIVIDENDS AND EARNINGS (in Thousands).

A complete table of all listed dividend paying industrial common stocks which have reported their war taxes for the year ended Dec. 31, 1917, or later.

(Column E shows the percentage by which 1917 taxes could be increased before reducing the balance of earnings below present dividend requirements).

Name of Company.	A 1917 Earnings Applicable to War Taxes and Common Dividends.	B 1917 War Taxes as Reported.	C Present Common Dividend Requirements. Rate.	Amount.	D Balance of 1917 Earnings After 1917 Taxes and Present Dividends.	E Ratio of Surp's Earnings to 1917 Taxes (D to B).
Ajax Rubber	$1,995	$495	$6	$852	$648	131%
Am. Beet Sugar	4,162	1,327	8	1,200	635	123
Am. International	4,585	839	3.60	1,800	1,946	232
Am. Smelt. & Ref.	19,219	3,850	6	3,660	11,709	304
Am. Steel Foundries	7,820	2,288	7	1,203	4,329	189
Am. Woolen	11,083	3,000	5	1,000	7,083	236
Associated Oil	4,214	373	5	1,987	1,854	497
Atlantic, Gulf & W. I.	14,282	5,400	10	1,796	7,386	‡136
Booth Fisheries	2,257	625	2	500	1,132	181
Calif. Packing	6,870	1,300	4	1,356	4,214	324
Calumet & Arizona	10,095	1,683	8	5,140	3,272	194
Central Leather	18,074	6,000	5	1,985	10,089	168
Cerro de Pasco	12,052	1,648	5	4,540	5,864	356
Chino Copper	10,745	1,232	4	3,480	6,033	489
Cluett-Peabody	2,463	423	6	1,080	960	227
Consolidation Coal	10,002	1,491	*9	3,162	5,349	359
Continental Can	3,725	850	6	810	2,065	243
Diamond Match	5,028	1,103	8	1,357	2,568	233
Distillers	6,013	1,233	8	2,464	2,316	188
Eastman Kodak	18,173	4,000	*30	5,861	8,312	208
Elec. Storage Battery	2,478	450	4	650	1,378	306
Elkhorn Coal	1,438	108	2	480	850	787
General Chemical	10,482	1,800	17½	**2,439	6,243	348
General Electric	34,192	7,289	*12	13,680	13,223	181
General Motors	33,532	6,939	12	9,912	16,681	240
Goodrich	10,947	2,250	4	2,400	6,297	280
Gulf States Steel	3,731	1,000	10	1,125	1,606	161
Ingersoll-Rand	8,613	3,453	30	**3,268	1,892	54
Inspiration	12,266	1,185	8	9,456	1,625	137
Int. Harvester of N. J.	22,720	7,880	7	2,800	12,040	153
International Nickel	13,186	3,591	4	6,422	3,173	88
Island Creek Coal	2,867	900	10	1,188	779	87
Kelly-Springfield	2,436	430	4	785	1,221	284
Kennecott	18,190	584	4	11,148	6,458	1,110
Kresge	2,221	500	5	500	1,221	244
Kress	1,555	370	4	480	705	190
Lackawanna Steel	26,147	10,040	*11	3,861	12,246	121
Lorillard	6,237	1,100	*18	**2,728	2,409	219
Manhattan Elec. Supply	617	128	5	120	369	188
Manhattan Shirt	843	175	4	200	468	267
May Dept. Stores	3,372	850	5	750	1,772	208
Miami Copper	4,952	717	4	2,988	1,247	174
Midvale Steel	61,310	25,732	6	12,000	23,578	88
National Acme	5,164	1,500	6	1,500	2,164	144
National Biscuit	3,586	700	7	2,046	840	120
National Cloak & Suit.	2,204	524	5	600	1,080	206
National Lead	3,685	493	6	1,240	1,952	396
Nevada Copper	10,669	896	3	6,000	3,773	421
Old Dominion	1,789	304	4	1,188	297	98
Pacific Mail	2,336	900	3	690	746	83
Pierce-Arrow	3,960	1,162	5	1,250	1,548	133
Pond Creek Coal	1,393	600	2	418	375	63
Railway Steel Spring	7,963	3,500	5	675	3,788	108
Ray Consol. Copper	10,758	1,431	3	4,731	4,596	321
Republic Iron & Steel.	22,704	8,597	6	1,630	12,477	145
Sears-Roebuck	18,444	3,977	8	6,000	8,467	213
Shattuck-Arizona	1,634	189	1	350	1,095	580

Sloss-Sheffield	2,002	325	6	600	1,077	331
Stewart-Warner	2,210	340	6	600	1,270	373
Studebaker	3,293	560	4	1,200	1,533	274
Superior Steel	3,347	931	6	360	2,056	221
Tidewater Oil	7,748	762	*18	5,742	1,244	166
Transue & Williams	1,240	360	5	500	380	106
Underwood Typewriter	2,752	500	*11	945	1,307	261
Union Bag & Paper	2,658	556	*10	1,000	1,102	200
United Alloy Steel	5,878	1,500	4	2,150	2,228	148
United Cigar Stores	3,106	550	8	2,173	383	70
United Drug	2,409	343	5	752	1,314	383
U. S. Indus. Alcohol	11,794	5,234	16	1,920	4,640	89
U. S. Smelt. & Ref.	2,495	692	5	1,755	48	7
U. S. Steel	432,465	233,465	*17	86,411	112,589	48
Utah Copper	33,710	4,381	10	16,245	13,084	298
Westinghouse Electric	15,350	2,500	3.50	4,957	7,893	316
White Motor	5,860	1,030	4	1,280	3,550	345

*Includes extras.
**1917 Dividends. Present rate uncertain.

shows 1917 earnings available for taxes and common dividends, the reported figures having been adjusted to present preferred dividend requirements. In the case of the coppers no deduction is made for ore depletion, since most companies omit it from their statements as a bookkeeping entry made for tax purposes only. Next are shown the war taxes as finally reported, in some cases slightly overstated through the inclusion of other minor items. There follows the annual rate and total amount of the common dividends on the current basis (which in quite a few cases have been reduced below the 1917 disbursements), and the balance of last year's earnings after deducting both present dividends and the reported taxes. The last column shows the ratio of this balance to the stock—*in other words the percentage by which the tax could be increased before the surplus above dividends is wiped out.*

A study of these figures discloses some interesting facts. Of the seventy-five companies only nine report a margin above dividends less than their 1917 taxes—that is, all the others would have met *twice* their last year's tax without bringing their earnings below present dividend requirements. Seven of the nine exceptions were in the 60 per cent. class, being thus physically immune from a doubling of their contributions.

Comparison with British Tax

In this connection a word or two about the British excess profit tax is appropriate, since it is quoted approvingly by the radicals for its 80 per cent. rate, and by the conservatives because it taxes not *large* profits but *war* profits. The English law is far simpler than ours. It provides an exemption equal to the average earnings of the two best years of 1911, 1912 and 1913, with a minimum (for corporations) of 6 per cent. of the invested capital—the latter to be determined apparently by investigation. The exemption is increased by 6 per cent. of all new capital invested during the war. All earnings above this exemption are taxed 80 per cent., but allowance is made for special depreciation of war plants and for ultimate loss in the liquidation of inventories.

How would so drastic a tax as this affect American companies? United States Steel, which is hardest hit (both relatively and positively) by the present law, should provide an extreme example of the effect of the British act. Assuming 1917 earnings for this year, the calculation is shown in Table IV.

The severe British tax would leave U. S. Steel about $25 per share for the common, one and one-half times the present dividend rate.

The Question of Cash

It may be regarded as settled that the new taxes will not in general reduce earnings below dividend requirements; but that fact by no means proves that the present rates will therefore be maintained. It is not earnings but *cash* that finally determines dividends. Profits mean cash, *provided* they are not tied up in (1) Plant, (2) Inventory, (3) Accounts Receivable. Since corporations are finding it very hard to

borrow to finance increases in these assets, their earnings must first be applied to their capital requirements before dividends are considered. To a great extent, therefore, dividends will depend upon the success of corporations in restricting these items. If the war plant extensions are built by government funds—as seems to be the tendency—the first part will be taken care of. The United States will be the chief customer of the large industrials, and prompt payment (devoutly to be wished!) would help out the accounts receivable situation. Finally, if prices do not rise above the present level, perhaps the headlong growth of inventories will at length be checked. These are the bullish possibilities of the cash question.

TABLE IV.

BRITISH EXCESS PROFITS TAX APPLIED TO U. S. STEEL

(Assuming Earnings for 1918 the same as in 1917)

Average Earnings 1911 and 1913....	$65,567,000
Add 6% of New Capital ($380,627,000)	22,838,000
Total Exemption	$88,405,000
Net Earnings (1917)	457,864,000
Subject to Excess Profits Tax.......	369,459,000
Excess Profits Tax (80%)...........	295,567,000
Income Tax (6% of balance).......	9,738,000
Total Tax	$305,205,000
Balance for Pfd. Dividends.........	152,555,000
Balance for Common...............	127,335,000
Per Share	$25.50

Upon these elements ultimately, rather than upon the new taxes, would seem to depend the course of dividends. The taxes are of great importance, of course, as absorbing a large part of the cash receipts. The writer thinks that the greatest aid could be extended to industry by permitting as much as possible of the tax payments to *remain with the corporations*, either in settlement of Government work already done or as advances against future deliveries. In this wise, financial stringency would be spared the industrials, just as the banks are protected by the policy of leaving Liberty Loan and tax payments on deposit with them. The fact that the Government is going to owe the corporations much more than they will owe the Government should make an arrangement of that kind entirely practicable.

All of which means that if the *money* situation is successfully taken care of, corporations should be able to meet the *tax* situation without harm to dividends.

THRIVING ON MYSTERY

There is always fascination about a mystery. What is the mystery about New Haven?

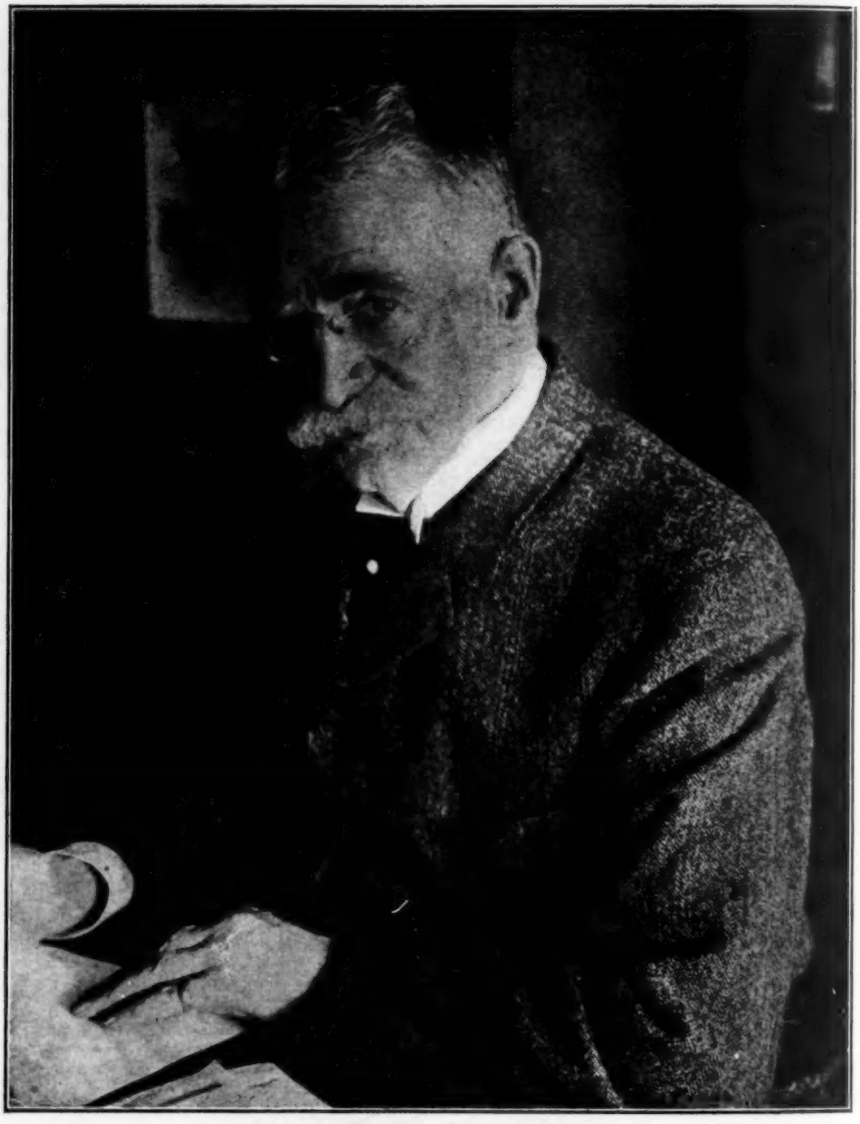
Something over six months ago, the stock sold at 21½. Today it sells at double this price. If the $43,000,000 of notes due in April of this year had not been met by the Government, the only recourse of the road would probably have been a receivership.

A New Haven stockholders' committee is now seeking proxies for the appointment of a suitable person to prosecute, at the road's expense, a suit now pending against former directors to compel them to restore to the company something like $150,000,000, giving as a reason alleged mismanagement.

There are also rumors that the New Haven is to constitute the big Atlantic Terminal of a regional system comprising, in addition to itself, the New York Central and the Chicago, Milwaukee & St. Paul. There is no system in the United States which has more wonderful power of recuperation than the New Haven.

Years ago, the Lake Shore Road went through a somewhat similar experience. The stock of that road was finally taken over by the New York Central at something like $1,200 per share when it was absorbed into the New York Central system.

If half what is said about New Haven prospects and its ability to come back is true, there is no telling where the stock may go.—*Odd Lot Review.*



HENRY HUDDLESTON ROGERS

One of a famous trio of "old school" financiers, of which the other two were William Rockefeller and James Stillman. To him is credited the idea of the Standard Oil Trust, which later became the Standard Oil Co. Under Mr. Rogers' direction Standard Oil became the most efficient industrial organization in the world. Before the panic of 1907 cut his fortune in halves he was estimated to be worth at lease $75,000,000.

Henry H. Rogers—The Great Monopolist

His Part in Building the House of Standard Oil—Elbert Hubbard's Pen Picture—Rogers and Mark Twain

Little Sketches of Big Men—No. 8

By BARNARD POWERS

IN the little old schoolhouse of the pleasant Connecticut town of Fairfield there is a certain battered desk, now carefully preserved, which among its multitudinous scars of time bears the jack-knifed initials "Hen. R." To the schoolmates of the boy who laboriously wrought those markings more than a half a century ago they were easily translatable into "Henry Huddleston Rogers." Years went on in the way years do and in time "Hen. R." carved his name as deeply and imperishably upon the tablets of the world's accomplishments as he had upon his childhood desk.

The boy himself and most of his playmates are dead, but the era in American finance in which he played so important a part lives in the great industrial enterprises which came to life and flourished under his master touch.

The boy was not father to the man, at least in the short-seeing eyes of his youthful associates. Henry was a "smart" boy, but that was about all that could be said. In the eyes of his schoolmasters who regarded the ability to absorb book lore as the criterion of success, he was not even smart. George P. Tripp, superintendent in Henry's Sunday school and chairman of the Board of Education, was the one who handed to Henry his diploma when the latter graduated from the High School. In later years Mr. Tripp said that at the time he "thought that particular diploma was so much waste paper." Yet Henry Rogers was destined to sit in the great game of finance with the masters of the art and beat them all.

Boyhood and Youth

The village of Fairhaven, where Henry Rogers was born in 1840, made a large part of its living from the sea. Henry's father, Roland Rogers, once essayed a voyage in a whaling ship, but the results were so unsatisfactory that he never tried it again. The Rogers, although not a family of "means," as they say in New England, were by no means poverty-stricken. Henry Rogers had the advantages of a good New England schooling, then as good as any in the land, and the super-advantages of an unusual mother. What better beginnings could anyone have? The father died when Henry was a boy, and as soon as he was old enough he took his place as the family bread-winner. He sold papers, clerked in a grocery store and became a brakeman at $40 a month. He acquired the habit of working long hours for little pay. He never forgot the faculty for long labor, in fact, he once said he had succeeded because he had worked "harder than anyone he had ever known or read about," but as for continuing to work throughout life for little pay—well, that was entirely another matter.

The Decisive Step

When he was 21 years of age he decided upon the step which was to shape his entire life. "Rock oil," as petroleum was known in those days, had been discovered by "Col." Edwin L. Drake in Titusville, Pa., and a thrill comparable to the gold fever of 1849 went throughout the country. Young Rogers had saved up about $600, he was in love with Abbie Gilford, of Fairhaven, and he wanted desperately to get enough money together to set up housekeeping. He went to the oil fields, saw immediately that money could be made by refining oil at the wells instead of at tidewater, and with Charles Ellis built a refinery on partly borrowed money between Titusville and Oil City. At the beginning they prospered, making $30,000 the first year, but a sudden speculative turn in the price of crude drove the young firm on the rocks.

The chief creditor was one Charles Pratt, of Brooklyn, who made the famous "Pratt's Astral Oil," and Rogers made a trip to New York to personally assume the liabili-

ties of his stranded concern. The result of that trip was that Pratt, seeing the promise of great ability in the young man, made Rogers foreman of his Brooklyn plant at the princely salary of $25 a week, with the promise of a partnership if the sales ran over $50,000 a year.

Young Rogers was now fairly started upon his career. Henry Pratt was the first man to refine oil east of Pennsylvania, and in Rogers he found a man-Friday comparable to none other. Scarcely taking time for his meals and often sleeping by the side of the stills wrapped up in a blanket, Rogers devoted his entire great energies to building up the business. Inventive, resourceful, enthusiastic, he hurdled every obstacle that presented itself and allowed his profits to accumulate.

The Standard Oil Trust

The Pratt concern grew and prospered, but only by the hardest kind of hard work. Henry Rogers was both an economist and monopolist. He saw that the greatest economy was produced by monopoly, a theory which this great war has at length brought home to our legislators. He saw that if instead of a hundred competing concerns there should be but one there would be a great savings in costs of operation and a corresponding increase in profits.

Hence the idea of the Standard Oil Trust. The public long credited this organization to John D. Rockefeller, but in later years the Standard Oil master denied that and gave the entire credit to Rogers.

The Pratt concern was one of twenty which were included in the merger, and at 32 years of age Rogers found himself Chairman of the Manufacturers' Committee of the Standard Oil Co. and worth $100,000 par value of Standard Oil stock. Before the end of the eighties he was a vice-president and when about 1888 John D. Rockefeller gave up active participation in its affairs, Rogers was his logical successor with John D. Archbold as understudy. In writing of Rogers, his life-long friend, Elbert Hubbard, once said that John D. Rockefeller never got mad and that Rogers and Archbold had agreed never to both get mad at the same time.

The growth of the Standard Oil Co. to the greatest industrial organization in the world need not be recounted here. It was the work of a group of business geniuses, among whom there was none greater than Henry H. Rogers. It prospered far beyond the most sanguine hopes of its organizers, and those who were with it and stayed with it from the start were literally engulfed by a tide of fortune which every year grew greater.

Frenzied Finance

One would have thought that the world-wide activities of Standard Oil would have been sufficient to occupy the entire time and even the great energy of a Rogers. But his restful forceful nature was always looking for new worlds to conquer. Like E. H. Harriman, Mr. Rogers thoroughly enjoyed a battle, and also like Harriman when the die was once cast he never relented nor let up. He was one of the organizers of the Consolidated Gas Co. in 1884 and was vice-president and a director of the Brooklyn Union Gas Co. Among his many adventures was a foray into the private gas preserves of J. Edward Addicks, of Boston. In *Frenzied Finance* Thomas W. Lawson tells of that enterprise in vivid and entertaining manner. When the smoke had cleared away Rogers took a cool $3,000,000 as his part of the spoils of war.

In Boston Rogers came in contact with A. C. Burrage and conceived the idea of dominating the copper industry. He perceived that if the Standard Oil idea of monopoly could be applied to copper, rich profits commensurate to those attained in the oil business were possible. The Butte & Boston and the Parrott copper mines were made the nucleus of the impending copper trust and later Boston & Montana was acquired and the capitalization was raised from $75,000,000 to $155,000,000. The story of the launching of the Amalgamated Copper Co. is told in all its detail in Mr. Lawson's book which I have already mentioned. Henry Rogers' plan was undoubtedly to amalgamate under one management enough of the copper producers to control the copper markets of the world. He nearly succeeded. Had the Government permitted a junction with the Guggenheim interests the resulting copper corporation would have been as great in its field as the U. S. Steel Corporation is now or the Standard Oil Co. was in its field.

Friendship with Mark Twain

The friendship which Mr. Rogers enjoyed with Mark Twain began in middle life and lasted until death intervened.

Its seeds were sown when Mr. Rogers first read "Roughing It." He liked the book so well that he read it aloud of evenings to his wife and then to his family. Twain's quaint humor made an irresistible appeal to Rogers who was a humorist of no mean order himself. Not so very long thereafter Mr. Clemens was obliged to return from Europe because of the failure of the publishing house in which he was interested and which had engulfed his entire fortune. One evening when he entered the Murray Hill Hotel with the noted physician Dr. Rice, Mr. Rogers was sitting in the lobby.

"There is a man you ought to meet because he is a great admirer of you," remarked Dr. Rice.

"Who is he?"

"Henry Rogers, the Standard Oil man."

"I should like very much to meet him."

So the meeting took place and two congenial spirits came together. Mr. Rogers immediately took charge of Mr. Clemens' financial affairs. He made the humorist's daughter a preferred creditor so that she was able to retain her father's manuscripts. This made possible the publication, under Mr. Rogers' supervision, of a complete set of Mark Twain's works. Mr. Clemens was enabled to pay all that the defunct publishing company owed and had an income sufficient for his needs.

Often Twain would accompany Rogers on a trip on the latter's yacht and the pair spent many pleasant hours in telling stories and swapping jokes with the other notables who could always be found on such junkets.

The Virginian Railway

The most enduring monument which Henry Rogers erected is the Virginian Railway. In this he undertook to build the most scientific and best equipped railroad in the whole country *at his own expense.* He began the work in 1902 and the road when completed ran from Deepwater, West Virginia, to Sewall's Point at the seaboard, a distance of 443 miles. The purpose was to tap the rich coal fields of West Virginia, and the road's grades, when completed, showed the smallest percentage per mile of any road in the country. It was Mr. Rogers' intention to build the Virginian Railway entirely without private or public aid, and he would have done so had not the panic of 1907 interrupted. This "rich man's" panic found Rogers heavily committed to the long side of the market. In order to continue financing his railroad project he was obliged to dump volumes of the highest grade collateral at ruinous prices. Finally he was compelled to issue about $17,000,000 in notes at a price which cost him upwards of 7 per cent. Such a high rate for borrowing for a man of Mr. Rogers' resources was almost unheard of and the loan was aptly christened a "loan de luxe." It is estimated that the 1907 panic cut the Rogers' fortune, estimated at $75,000,000, in twain, but he completed his railroad, and of the appıoximately $50,000,000 spent, personally advanced more than one-half.

Although : verely crippled he was still a power in finance and had he lived would. undoubtedly, like H nry C. Frick, ha\e recouped his losses. The extent of his power is seen in the fact that he was vice-president and a director in the Standard Oil Company of New Jersey, and its three allied companies, the National Transit Company, New York Transit Company and National Fuel & Gas Company, a director and once the president of Amalgamated, vice-president and director in Anaconda, vice-president and director in the United Metals Selling Company, director in the Tennessee Copper Company, vice-president and director in Brooklyn Union Gas, director and member of the finance committee of the U. S. Steel Corporation, president and director in the Virginian Railway Company, and a director in Union Pacific, St. Paul and the Atchison railroads.

Gifts to Fairfield

Henry Rogers never forgot the fine old elms of Fairfield and one of his greatest pleasures was to scheme and plan for further beautifying and improving his native town. He built a million dollar tack factory to give employment to its inhabitants and his gifts for public purposes were endless. Among other donations were $200,000 for a town hall, $350,000 for the Millicent Rogers Library, named in memory of

his daughter, $50,000 for a Masonic hall, $75,000 for the Tabitha Inn and $1,000,000 for the First Unitarian Church, erected in memory of his mother, Mrs. Mary Eldridge Rogers. In all he gave approximately $4,-000,000 to his home town for buildings, streets, parks, and other municipal purposes.

A Two-Fisted Fighter

Henry Rogers was a two-fisted fighter, and is characterized by Mr. Lawson at various places in *Frenzied Finance* as a "roaring lion" a "caged rattlesnake" and a "Bengal tiger robbed of his prey." In repose his friends described him as of a truly delightful personality, full of humor, replete with kindliness and a most charming and genial host. He played the great game of finance according to the hard rules of the times and neither asked nor gave quarter.

He believed implicitly in monopoly because he saw great waste in a widespread competition. Once he defined a trust as a "combination of ideas backed by capital." Again he told the youth of Fairfield that if he could feel convinced that the combination of capital was otherwise than a positive good for the community at large, he would immediately abandon his position in regard to that subject. Whatever one may believe along those lines one can never question the sincerity of Mr. Rogers' beliefs.

Imperious by nature he had the Standard Oil dislike for publicity and contempt for public opinion. When once on the witness stand he replied in answer to a question:

"It is quite immaterial to me what the Supreme Court of Missouri desires me to say other than what I have testified."

A Great Trio

Henry Rogers was one of a great coterie of which the others were William Rockefeller and James Stillman. Together this trio planned and executed conquests in financialdom that were truly epic. They were the "old school" financiers whose day has passed probably never to return. No better pen picture has ever been drawn of H. H. Rogers than that by his friend the late Elbert Hubbard, and I therefore quote:

"H. H. Rogers had personality. Men turned to gaze at him on the street; women glanced, then hastily looked, unnecessarily hard, the other way; children stared. The man was tall, lithe, strong, graceful, commanding. His jaw was the jaw of courage; his chin meant purpose; his nose symboled intellect, poise and power; his brow spelled brain. He was a handsome man and not wholly unaware of the fact. In him was the pride of the North American Indian and a little of the reserve of the savage. His silence was always eloquent, and in it was neither stupidity nor vacuity. With friends he was witty, affable, generous, lovable.

"In business negotiation he was rapid, direct, incisive; or smooth, plausible and convincing—all depending upon the man with whom he was dealing. He often did to others what they were trying to do to him, and did it first. He had the splendid ability to say "no" when he should, a thing many men cannot do. At such times his mouth would shut like a steel trap and his blue eyes would send the thermometer below zero. No one could play horse with H. H. Rogers. He himself was always in the saddle.

Did Everything Well

"The power of the man was more manifest with men than with women, yet he was always admired by women, but more on account of his austerity than his effort to please. He was not given to flattery; yet he was quick to commend. He had in him something of the dash that existed when knighthood was in flower. He dressed well because everything he did he did well. But he hated Beau Brummel. Dress to him was only an incident not an end. He had taste, a sense of proportion, an appreciation of color, a just regard for form. To the great of the earth H. H. Rogers never bowed a knee. He never shunned an encounter, save with weakness, greed and stupidity. He met every difficulty, every obstacle unafraid and unabashed. Even death to him was a passing event—death for him had no sting nor the grave a victory.

"He prepared for his passing looking after every detail as he had planned trips to Europe. Jauntily, jokingly, bravely, tremendously busy, keenly alive to beauty and friendship, deciding great issues offhand, facing friend or foe, the moments of relaxation chinked in with religious emotion and a glowing love for humanity—so he lived and so he died."

Machinery and Operation of the Federal Reserve System

Article II—Reserve Districts and Cities

By EUGENE E. AGGER

Associate Professor of Economics, Columbia University, Author of "Organized Banking," "The Budget in the American Commonwealth," Etc.

THE first questions that had to be decided in the building of the machinery of the Federal Reserve System were: How many districts should there be? How should the boundaries be drawn? What city in each district should be designated the Federal Reserve city?

These questions were answered by an Organization Committee made up of the Secretary of the Treasury, the Comptroller of the Currency and the Secretary of Agriculture. This committee held extensive "hearings" all over the United States, and on the basis of the hearings decided upon twelve districts—the maximum number permitted by law. The cities in the several districts designated as "Federal Reserve cities" were as follows:

1. Boston.
2. New York.
3. Philadelphia.
4. Cleveland.
5. Richmond.
6. Atlanta.
7. Chicago.
8. St. Louis.
9. Minneapolis.
10. Kansas City.
11. Dallas.
12. San Francisco.

Since 1914 branches of reserve banks have been established in the following cities: Omaha, Louisville, Portland, Ore.; Seattle, Spokane, Pittsburgh, Cincinnati, Detroit, Baltimore and Denver.

Membership and Capital

The penalties as well as the allurements of the law brought practically all the national banks into the system. State banks have, however, held aloof. Only 444 out of over 18,000 state banks have come in and most of these during the last year. The reluctance of the state banks to join has been due to more numerous privileges extended and fewer responsibilities imposed by state laws. From the outset, however, the subscriptions by the member banks to the capital stock of the reserve banks sufficed in each district to supply the minimum $4,000,000. The original capital subscriptions for the system as a whole equalled $109,898,902. By May 24, 1918, they had grown to $150,930,000.

Deposits in Reserve Banks

The outbreak of the Great War put such pressure on the American banking system that it was generally agreed that the Federal Reserve System should be immediately put into operation. While the directors of the reserve banks suggested November 30, 1914, as the earliest practicable date of opening, Secretary McAdoo, compelled by emergency conditions in the South, fixed the date as November 16. The date was hailed by Mr. P. M. Warburg as America's economic "Fourth of July." The first Federal Reserve Board was made up of Paul M. Warburg of New York, W. P. G. Harding of Birmingham, Ala., A. C. Miller of California, Charles S. Hamlin of Massachusetts, and Frederic Delano of Illinois. No change has thus far been made in the board's personnel. The Secretary of the Board has from the outset been Dr. H. Parker Willis, who, as committee expert, had much to do with the framing of the Reserve Act in Congress. The Federal Advisory Council also got under way as soon as the reserve system began operations.

Funds from member banks poured into

the reserve banks on the day of opening. $241,408,000 were paid in as the first reserve instalment. Of this amount over two hundred million dollars were in gold and gold certificates. As time has gone on the cash accumulated by the reserve banks has increased rapidly. On May 24 the sum had risen to $1,956,056,000. Member bank deposits, based upon rediscounts and loans, have also increased rapidly. On November 20, 1914, the net reserve deposit liabilities of the reserve banks equaled $227,880,000. On May 24 they stood at $1,436,284,000. For some time after the establishment of the Reserve System no Government deposits were made in the Reserve banks. Special deposits were made during 1915 and on November 23 of that year they were officially designated as fiscal agents of the Government. Thereafter Government funds were regularly entrusted to them. The services of the reserve banks in connection with the Liberty Loan campaigns will be more fully referred to in the next article.


W. P. G. HARDING
Governor, Federal Reserve Board

The Reserve Act provides for two kinds of notes: the "Federal Reserve bank notes" and the "Federal Reserve notes." The "bank" notes are based on bonds taken over by the reserve banks from the member banks. Their issue has been comparatively unimportant, except that within the last month or so, under the so-called Pittman bill providing for the sale of silver dollars and for the replacement of silver certificates based on such silver dollars with Federal Reserve bank notes, the issue of these notes in small denominations has begun. It will be interesting to watch the one, two and five dollar bills in general circulation, to see whether those that get into our hands are Federal Reserve bank notes or other types of notes.

The "Federal Reserve notes," which are based on commercial paper and gold, appeared in circulation as soon as the reserve system got started. On November 27, 1914, the amount outstanding was reported as $2,700,000. Today the amount is $1,578,621,000.

Rediscounting and Open Market Operations

It will be recalled that the Reserve Act aimed to provide a standardized form of commercial paper that could be used by banks and by individuals in dealings with the reserve banks or in an open market with each other. The act imposed upon the Reserve Board the responsibility of defining the character of such paper. One of the early accomplishments of the Board was this definition of eligible paper. There is no need in this place to go into the definition in detail. Suffice it to say that while the Board did not rule out the familiar American single-name paper, it attempted to provide safeguards to assure its commercial character.

Besides promissory notes or single-name paper the other clases provided for were: Drafts, bills of exchange and trade acceptances; six-month agriculture and live stock paper; commodity paper; and bankers' acceptances. The act itself was held to rule out promissory notes from the open market operations, which are limited, therefore, to the other types. A member bank is permitted to give its own promissory note, however, if it is buttressed by acceptable collateral.

Discount Rates

The Reserve Act gives the Board the power to review and to determine the rates charged by the reserve banks. In executing this responsibility the Board calls on the reserve banks to suggest the rates that the banks themselves regard as desirable in their several districts. Down to 1918 the general trend of the rates was downward, although thereafter the pressure of war conditions on the money market tended to hold rates firm or to advance them. The rates quoted vary (a) according to different classes of paper, (b) according to the periods of maturity of paper in the same class, and (c) according to the different reserve banks. But as far as the banks are concerned, their several rates are, despite a few differences, remarkably uniform. In order to further the use of "trade acceptances" the rates for this class of paper are a shade lower than for similar maturities in other classes. The lowest rate at the end of May stood at 4 per cent for member banks' collateral notes, while the highest rate was 5½ per cent for agricultural and live stock paper of over 70 days maturity.

CHARLES S. HAMLIN
Member, Federal Reserve Board

Owing to the reduction of reserve requirements for member banks and to the heavy influx of gold from abroad during 1915, the member banks did not have to depend seriously upon the reserve banks for support. During 1917-1918, however, resort to the facilities of the reserve banks was more frequent, and may now be said to be accepted as a matter of course. During 1917 there was also some rediscounting among the reserve banks themselves, and in its 1917 report the Board announces the policy of maintaining approximately uniform reserve conditions among the reserve banks through such rediscounting.

Domestic Clearings

The framers of the Reserve Act realized that carefully organized clearing and exchange machinery was essential to a free flow of funds and to successful mobilization of reserves. Hence the act provided for *intra-* as well as *inter*-district clearings. As early as May 8, 1915, the Reserve Board issued regulations for clearings between the reserve banks themselves. These regulations provided for the establishment of a "gold-settlement" fund at Washington. Each reserve bank is required to maintain in the gold settlement fund a balance of at least $1,000,000. The clearings through the fund are based on telegraphic advices (subsequently confirmed by mail) sent to the Board by each reserve bank of the total amounts due to the other reserve banks. These amounts are based of course on the items sent in by such banks for collection. The Board's "settling agent" then computes the total "debits" and "credits" of each bank and the proper entries are made in the accounts of the gold settlement fund. Should a bank's balance drop below the required one million, arrangements for loans, etc., must be made with other banks, or gold or gold certificates must be shipped. From the outset the gold-settlement fund was a great success. During 1915 the total clearings through the fund equalled $1,052,649,000. During 1917 the amount reached $24,319,060,000.

The clearings between the member banks offered more trouble. Difficulties arose because of the practice that had grown up

under a system based on scattered reserves and because many bankers were reluctant to give up lucrative exchange charges. After a little experimenting with purely voluntary systems the Board adopted a system which, while not compulsory, requires every member bank to remit at par for items sent by reserve banks, remittance being either in the form of checks on the reserve or on other banks, or of cash shipped at the expense of the reserve bank. An attempt on the part of the banks to circumvent the Board by means of an amendment of the Reserve Act was checkmated through an emasculation of the amendment itself before it was finally enacted. Provision was also made for the carrying of exchange balances for clearing and collection purposes by non-member banks. While some non-member banks have availed themselves of the "country-wide" check clearing and collection scheme, many more have remained outside. In its 1917 report the Board expresses its disappointment over this. The scheme can be completely successful only if all banks come in. As the system now operates, a slight service charge is made for all items sent in for collection, but this charge is smaller than the old exchange charge. The growth of the operations under the system are indicated in the following table:

	Items Handled	Total Amounts Handled
July-Dec., 1916....	$28,884,676	$12,538,260,555
Jan.-Dec., 1917....	84,696,968	51,593,770,894

Foreign Operations

Under this head reference may be made to the establishment abroad of branches of member banks. This has gone to some extent. Branches of member banks have been established in Buenos Aires, Habana, Rio de Janeiro, Valparaiso, Genoa, Petrograd, Caracas, Panama and Cristobal. Most of these branches have been opened by the National City Bank of New York.

Next, brief reference may be made to the foreign operations of the reserve banks themselves. These operations relate to the establishment of foreign agencies, etc., and the dealing in foreign bills and in bullion. The tremendous labors at home and the unsettled conditions abroad have prevented any great accomplishments in this direction. The New York Federal Reserve Bank has established reciprocal relations with the Bank of England and the Bank of France. The San Francisco bank has done practically the same with the National Bank of the Philippines. But that is about as far as the reserve banks themselves have gone. The discount of dollar exchange in Spain, Scandinavia and elsewhere has led Senator Owen to introduce a bill providing for a new "Federal Reserve foreign bank."

Lastly, a word or two about the gold reserves. These were seriously drawn upon for export during 1914, but they grew rapidly during 1915 and 1916. By the close of 1916, through credits extended to foreign bankers and governments, the inflow was halted. Then when the United States entered the war, the necessity of safeguarding our own credit structure was so obvious that an embargo was placed on gold exports. Now no gold may leave except under the direction of the Reserve Board. Some, but only a little, has been allowed to go to Japan, India, Spain, Mexico and South America. The whole business of foreign exchange was also put under the Board's supervision, and under the direction of Mr. Frederick I. Kent the Board has established an effective licensing system.

Examinations and Publicity

In this connection it is only necessary to say that a thoroughgoing system of examination both of reserve and of member banks has been established. Besides periodical examinations by authorized officials, "reports of conditions" are required. Those sent in by the member banks are periodically published by the Comptroller. For the reserve banks themselves the Board publishes a weekly statement covering the individual banks and the system as a whole. This statement appears regularly in the Sunday paper. Moreover, the Board publishes monthly a *Federal Reserve Bulletin* which contains all sorts of material relating not only to banking in the United States, but also to banking and credit conditions in other countries. The *Bulletin* can be obtained by any body interested for a subscription price of two dollars a year.

In the next article the big achievements of the Federal Reserve System will be discussed.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

"Will Have Ships Enough"—Schwab

Speaking at the annual dinner in New York City of the American Iron and Steel Institute, Charles M. Schwab, general manager of the Emergency Fleet Corporation said in part:

"I am not going to make any predictions, but I am sure that this Government and Lloyd George are going to have what they require—ships for the winning of the war.

"During the month of May, ending to-day, the United States produced—not launched, but put into commission, ready for service—250,000 deadweight tons. And I am sure the month of May is going to be the least productive. I have enlisted the support of every industry in the shipbuilding or accessory line that is possible at this date; but that is not enough. During the past week we have contracted for new works aggregating \$200,000,000 or \$250,000,000 that will increase the shipbuilding capacity of the United States by at least 3,000,000 tons a year; and we will double that if necessary. We shall produce during this year 400,000 or 500,000 tons on the Great Lakes alone; but I think that is not enough, and in the coming year we can expect at least 1,000,000 tons from the Great Lakes."

Warburg Pleads for Economy

Citing the change in England's "business as usual" policy at the outbreak of the war, Paul M. Warburg, vice governor of the Federal Reserve Board, laid great emphasis on the elimination of waste in every industry as the surest way of winning the war. Mr. Warburg spoke to the delegates to the National Conference on War Economy, gathered at the Hotel Astor in New York.

"England," said Mr. Warburg, "began the war with the slogan of 'business as usual'; it took many fateful months until the country fully accepted Earl Kitchener's view that 'Either the civilian population must go short of many things to which it is accustomed in times of peace, or our armies must go short of munitions and other things indispensable to them.'

"And to-day there is no one who would take issue with Lloyd George's striking statement that 'Extravagance costs blood; the blood of heroes.' I believe it is freely admitted to-day that England's failure to adopt from the beginning the point of view of these eminent leaders and to appreciate at an early stage the duties devolving in times of modern warfare upon the civilian population, has been the cause of loss to her of untold life and treasure. But while England was dealing with wholly unprecedented conditions, justly baffling the ablest minds, we who have the advantage of her dearly bought experience should stand convicted of a very grievous crime if we lost precious time in adjusting our minds to a full realization of our civic duties at this juncture.

"In time of war nothing is more dangerous and more fatal than delay. The present emergency requires that the country be aroused to a thorough consciousness of the fact that whoever uses material, credit, labor or transportation unnecessarily is placing a handicap upon his Government in its efforts to complete its preparations as speedily as possible. Instead of aiding the Government he competes with it, bars its way, and makes himself guilty of delaying its progress toward victory."

—Kirby, N. Y. *World.*

THE RAILWAYS IN NEED OF REPAIRS.

Investing in Shipping Companies

Some New York bankers do not favor the establishment of banks in this country to look after the shipping interests after the close of the war. George E. Roberts, assistant to Frank A. Vanderlip, president of the National City Bank, says:

"There can be no difference of opinion as to the importance of developing our merchant marine to a point where we will possess something like our old-time share of the world's carrying trade, and of maintaining this position in the years following the war. It is difficult, however, to make an effective appeal at this time to our people to invest their money in shipping companies.

"The situation in this country as regards shipping investments is very different from what it is in the Scandinavian countries, Holland, Japan, or Great Britain. Maritime interests have long been predominant in these countries. Shipping interests are familiar to the people—common and popular—while shipping investments have been practically unknown to the body of our people for the last two generations. At present, notwithstanding a general recognition of the importance of building up our maritime interests, the situation is not encouraging to individual investors.

—Chapin, St. Louis *Republic.*
CATCHING UP.

"There is no chance at present for private enterprise to get into shipbuilding operations even if anyone desires to do so. Evidently it would be premature for bankers to lay plans for promoting private shipbuilding until the permanent policy of the Government toward our merchant marine shall have been determined."

McAdoo on Taxation

In a letter addressed to Representative Kitchin discussing the financial situation in reference to taxation and Government borrowings, Secretary McAdoo said:

"A normal tax falls upon all alike. Therefore, as I pointed out in my statement before the Ways and Means Committee last Summer, there is not the same objection to the exemption from normal income taxes as there is to the exemption from surtaxes. A substantial increase in the normal income tax is the soundest and surest way of stabilizing the price of Government bonds. If we have to increase the interest rate on Government bonds, the increased rate may continue for ten to thirty years, and some of the bonds which we have issued will go to great premiums not long after the war is over. If we make the bonds at the present rate more attractive by increasing the normal tax, then the decrease in taxation which will follow the close of the war will automatically adjust the situation. I believe that to stabilize the price of Government bonds by first increasing and subsequently reducing the normal income taxes, from which the holders of those bonds are exempt, is sound finance and sound economics.

"There is another feature deserving of consideration. We are asking the people to finance this war, and we are offering them an investment paying 4¼ per cent. interest. The people have responded wonderfully to this appeal. In the last Liberty Loan campaign 17,000,000 approximately, subscribed. There is a widespread feeling that many people who are able to do so, especially those who are making vast profits out of the war, are not doing their part, either in the purchase of Liberty bonds or in the payment of taxes—that they are investing in corporate stocks and bonds producing high returns instead of in the bonds of their own Government producing reasonable returns, when the first duty of patriotism and self-protection demands that they shall buy Government bonds for the protection of the nation in its hour of peril. There is a natural feeling among the masses of the people that taxation upon incomes and upon war profits should be high enough to bring the return from corporate investments more nearly on a parity with the return from Government bonds; that the Government should not be forced to compete for credit with war industries which are profiting abnormally and which, unless restrained by the exercise of sound and just taxation, will constantly add to the difficulties of the people of the United States in their effort to supply the Government at reasonable interest rates with the credit it needs to fight successfully this war for liberty."

End of Free Market in Steel

The periodicals devoted to steel and iron

developments note that every sign of a free market has been removed, and no products are moving without Federal permission. In consequence manufacturers of goods which are not strictly included among the essentials are becoming more and more persuaded that there will be little steel for them in the remainder of the year.

In an order, dated June 6, that no one in the steel trade fully understands, the War Industries Board has put in the hands of J. L. Replogle, Director of Steel Supply, the distribution of the entire iron and steel output of the country, the *Iron Age* says. Starting with the sweeping provision that no pig iron or steel products shall be shipped except under priority certificates, the order provides that after all priority requisitions have been filled, producers may supply their customers if the latter are on a preferred list, which, as revised, is to be sent out later.

As yet no direct notification of the new order has come to producers, nor has the operation of Government priorities as carried on for many weeks been changed. Requests for interpretations have poured in upon Washington, but thus far no official answer has been given to the urgent requests of various industries to know whether they will have much, or little or no steel from this time forth.

The fact is, that today no accurate estimate exists or can be made of the Government's steel requirements.

Our Inflation Danger—A. B. Hepburn

The Congressional idea and the popular idea that this is a country of unlimited wealth, that we can finance other nations without stint, and spend billions by the score annually and obtain these vast sums, at will, by taxation and borrowing, is 'a mischievous idea,' says A. Barton Hepburn, president Chase National Bank, New York in a paper on "Financing the War," prepared for Princeton University.

"People can only buy bonds and pay taxes out of their savings, the money they have left after paying the current expenses including the cost of living.

"There is a limit to what Congress can do with safety and propriety, and it seems to me that the best service we can render is to help find that limit that the Government may not overstep the same and thereby invite disaster, the disaster of currency inflation and a paper basis. The Government can raise money without limit by resorting to the printing press.

"That is practically what some countries in Europe have done. That would put us on a paper basis, produce inflation of currency, depreciation of values and all the train of concomitant evils. The great danger that confronts us is that we may fall in the same financial welter that obtains in some European countries, that we will lose the proud pre-eminence of being squarely on a gold basis, with the prestige that it will give us after the war and the impetus that it will give to our international trade after the war. Dollar exchange with

—Darling, N. Y. *Tribune*.

GET BUSY.

the dollar on a paper basis, will make little headway in displacing the pound sterling, and the recent enormous growth in our financial and commercial relations with the world may fade away."

Future of the Auto—J. N. Willys

John N. Willys, president of the Willys-Overland Company, discussing the situation in the automobile industry generally, and particularly as it applies to his company, says:

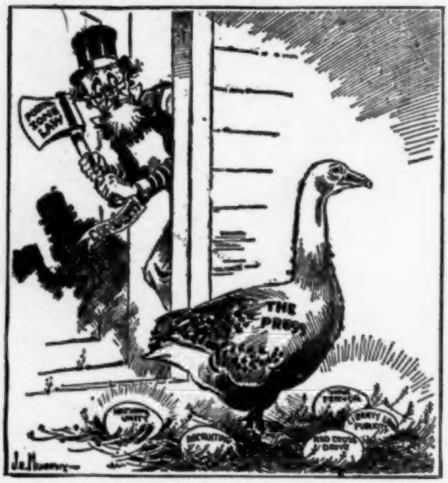
"Present and future position of automobile industry as a whole is fine. I speak particularly of concerns which manufacture parts and have equipment and frequently space for handling contracts freely offered by the Government. As passenger car production is lowered, plant capacity is taken by war orders. Profits on the latter are

reasonable and volume is so large we should this year make $9,000,000.

"Automobiles already produced are being used up and supply is being reduced. After the war the demand for automobiles will be enlarged and our capacity will then be freed from war orders. Steel will then be plentiful and activity in automobile industry promises to be larger than ever before."

"Menace of State Socialism"—A. Reynolds

America's war problems and those to follow the war were discussed in an address by Arthur Reynolds, vice-president, Continental & Commercial National Bank, of Chicago, before the Bankers' Club, of Pittsburgh, recently.



—Murphy, San Francisco *Call.*
THE GOOSE WITH THE GOLDEN EGGS.

"Co-operation between the Government and big business organizations, he found, is speeding production and supplying the material of war. He expressed the hope that this co-operation would continue, and that the anti-trust orators would discover that these great establishments are essential to America's place as a leading nation.

"Closely related to taxation is price-fixing. It was inevitable that taxes should be greatly increased, and it is right that neither the Government nor the private citizen should be compelled to pay exorbitant prices.

"Stripped of all its furbelows and carried to its conclusion, price-fixing would mean ultimately the regulation of everything you and I use. To get absolute fairness, and that is the aim of its advocates as an after-the-war remedy, all wages and salaries must be controlled. The farmers' wheat, the packers' beef, the tanners' leather, all represent labor costs. If you say to those men the price of your product shall be so much and no more, have they not the right to answer, 'Very well, I cannot supply these without labor. Therefore, by decree fix the price of labor to correspond to the labor cost involved in what I offer for sale, but fix it so that I shall have a profit left.' How much of a muddle would you get into by adopting such a program as a permanent policy?"

Cost of Four Years of War

Commenting on the war financial situation in the *Review of Reviews,* a writer points out that Austria had been bankrupt for two years. He says:

"The war debts of the different powers, to July 31, 1918, will be about as follows:

Great Britain and colonies	$33,000,000,000
France	20,000,000,000
Russia	22,000,000,000
United States	12,000,000,000
Italy	6,000,000,000
Germany	$32,000,000,000
Austria-Hungary	17,500,000,000
Bulgaria and Turkey	3,000,000,000

"If, to these figures are added the cost to Holland, Switzerland and Scandanavian countries of maintaining neutrality, the direct war debt will easily approach $150,-000,000,000.

"Prior to August 1, 1914, the debt of the warring nations was as follows:

Great Britain	$3,500,000,000
France	6,600,000,000
Italy	2,800,000,000
Russia	5,000,000,000
United States	1,200,000,000
Germany	$1,165,000,000
Austria-Hungary	4,000,000,000

"The whole debt of these countries, therefore, when they have concluded the fourth year of the war, will be about $175,000,-000,000.

"The pre-war interest rate of the greater portion of the debt would average about 3½ per cent. On the loans made since war began the average would be nearly 5 per cent. If we strike an average for the $175,-000,000,000 of 4½ per cent. the interest on this debt next August will be at the annual rate of nearly eight billions of dollars. In other words, the interest charges will equal the pre-war debt of Great Britain, Italy and the United States and be 50 per cent. in excess of the 1914 national debts of the Central Powers. Germany now has a carrying charge that is more than the equivalent of her pre-war debt."

Spirit of Confidence Among Market Observers

Posner & Co.—Viewing the various developments in the railroad situation of recent weeks and months, it becomes impressively apparent that the future policy of the country towards the roads will be guided by the following principle and axiom:

That the roads must be able to earn dividends and interest and costs of operation, all on a fair basis in relation to all other prices. The crux of the matter is the railway rate, which—as in prices of commodities—must be adjusted in accordance with changing needs. On this new and fair basis, railway investments now rest, and will continue to rest, and there is ample assurance in that fact for every investor.

The day has arrived when it is realized that every step toward putting the railways on firm ground constitutes a reassurance for business of all kinds. There is law enough in that fact to justify all such steps.

The "rails" have come again into their own; but more than that, have been put in a position which warrants recognition of their leadership in the investment markets of the country.

Hayden, Stone & Co.—Perhaps the feature that gives most satisfaction at the moment is the thoroughly sound position of the market. This has been repeatedly proven by resistance toward unfavorable news. This does not mean that stocks would not be for sale in the event of positive disaster, or of actually foolish legislation, but it does mean that, short of these, there is no reason to expect any serious decline. On the other hand, with the prospect of tax legislation continuing through the summer, it would take an event of unusual importance to stimulate much buying. In short, for the time being, we should expect fluctuations within rather narrow limits, but when the next movement of importance does take place, we should expect it to be in the upward direction.

Keane, Zayas & Potts.—This is not a time for market exploitation or for market excitement. Violent fluctuations in prices would tend to unsettlement of the money market and would serve to accentuate the opinion of our enemies that we have been made hysterical by fright. A steady and firm front all along the line and in all phases of our business and social life will add to our potential strength and weaken the confidence of our foes. The country is safe and sane and sound, and our efforts should be directed to keeping it so. Owners of railroads, copper properties, steel plants, and automobile factories are invited to study the last paragraph of Mr. McAdoo's recent statement and take courage from it. We are a long way from the demnition bow-wows, and we are getting further away every day.

J. S. Bache & Co.—It is the technical situation of stocks more than the current news of the day, or even the great movements of the war, that are at this time determining the trend of the market. Aside from the technical features alluded to, there are certain conclusions to be drawn from the market in relation to the war. In spite of the dangerous situation and the fluctuating character of the war news, the remarkable underlying strength of the market and the refusal to be swayed adversely, is proof of the confidence of large investors that the Allies will hold the line. As time goes on, if the failure of the Germans to achieve their objective appears final, we would expect a market advance of considerable importance, or, if the German offensive shows any signs of decided weakness, there would, we believe, be a sudden and marked rise.

Shonnard, Mills & Co., New York.—Domestic developments are decidedly encouraging. Our shipping problem is rapidly being solved. Men and material are now being sent to Europe in a steady stream. The railroads of the country have obtained permission from the Railway Administration to spend $937,961,318—$440,071,000 for additions and betterments; $479,686,531 for cars and locomotives already contracted for and $18,203,774 for track extensions. While the initiative for financing these expenditures—all of which are considered as of vital importance in winning the war—is left with the individual railroads, the government has clearly obligated itself to see to it that the money is forthcoming at reasonable rates of interest. It has both the moral suasion and the material machinery for the task. Indeed, the entire budget has virtually been underwritten by the government. The new War Finance Corporation will prove, in this connection, a powerful stabilizer of interest rates and an effective distributor of the aggregate financial burden.

McDonnell & Co.—Practically all investors are now in the uncomfortable position of owning some bonds which have declined substantially in market price since our entrance into the war. The United States Government has agreed to guarantee interest on all railroad bonds until twenty-one months after peace is declared. The interest on all railroad bonds during the next few years is, therefore, to all intents and purposes as safe as that on Liberty bonds. If this hypothesis is correct, it matters not whether a bond is a first mortgage or a second mortgage, for the guarantee of "Uncle Sam" is much stronger than the roadbed on which the bonds are secured. There is no such thing as a second mortgage United States bond. Consequently, second mortgage railroad bonds which yield from 6% to 8% are as attractive as first mortgage bonds which yield in the neighborhood of 5%.

BONDS AND INVESTMENTS

New York Central Bonds

Important Issues and Their Position—Opportunity for Diversity of Investment

Bond Study No. 2

By GEO. S. HAMMOND

THE investor in railroad securities might confine himself to bonds of the New York Central Railroad and yet have, in one sense, a diversified list of investments. That is to say, he might select from the seventy-five or so different bonds, including those of leased or controlled companies, divisional first liens, divisional second liens, first mortgage main line issues, general issues of various degrees of seniority, refunding bonds, convertible debentures, and equipments. The New York Central is a property of such vast dimensions, represents such an enormous investment, and has such a consistent record for adequate margins of safety for its debt, that even the least of its obligations has real investment value, and the old underlying issues are securities of the very highest character.

In 1914, the prosperous Lake Shore and Michigan Southern Railway and several smaller roads were consolidated with the New York Central and Hudson River Railroad as the New York Central Railroad Company. For this reason, we cannot go back beyond 1914, except by combining the accounts of the separate companies, in determining from the road's annual reports the protection which the bonds enjoy. The subsequent period, however, contains the high and low extremes of 1916 and 1914 respectively, which may be taken as guides as to the maxium and minimum earning power of the property as at present constituted. The final figures for the two years follow:

	1914	1916
Total Income	**$45,664,933**	**$85,967,446**
Rentals, etc.	**13,908,063**	**11,436,929**
Balance for Interest	**$31,756,870**	**$74,530,517**
Interest charges	**22,398,622**	**28,871,300**
Net income	**$9,358,248**	**$45,659,217**
Interest Earned Times	**1.42**	**2.58**

It is the contrasting record of two such years which gives to the junior bonds a somewhat speculative flavor, while the adequacy of earnings to cover the senior bond interest in even the least satisfactory years is justification for their high standing.

Under Government Control

For the immediate future, the status of the bonds may be taken from the following rough estimate of the rental under government control:

Estimated Net Operating Income	**$55,972,800**
Rentals of Leased Lines	**6,400,000**
Balance of Operating Income	**$49,572,800**
Interest and Dividends Rec'd	**10,200,000**
Available for Interest Charges	**59,772,800**
Senior Interest Charges	**21,700,000**
Balance	**$38,072,800**
Interest on Refunding 4½s	**1,800,000**
Balance	**$36,272,800**
Interest on Debenture 6s	**6,000,000**
Net Income	**$30,272,800**

Of the total capitalization of the company, amounting to close to a billion dollars, nearly three-fourths is represented by bonds, the figures being:

Funded Debt	**$701,529,834**
Stock	**249,849,360**
Total	**$951,379,194**

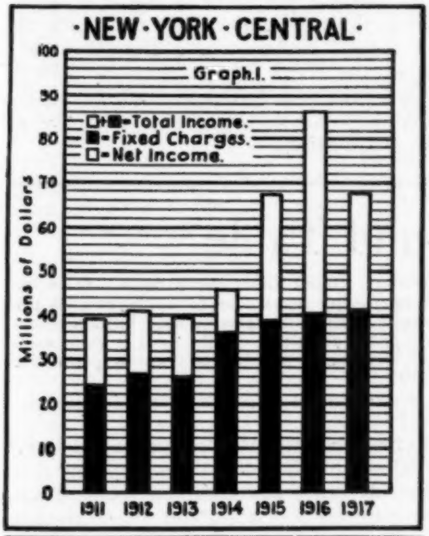
This is an instance where the percentage earned on the stock should not be regarded as too accurate an index of the safety of the bonds, for the stock is small in amount, relatively. For example, in 1917 the company earned 10.25% on its stock, but the rentals, interest, and other charges were earned only 1.62 times. This is a sufficient margin, to be sure, but it is not quite what one might expect from the bald statement that over 10% was earned on the stock.

To go into all the factors which affect the

investment status of the bonds of the New York Central Railroad would require an extended analysis. Suffice it to say that the property is adequately maintained, efficiently operated, and that there is every reason to expect, barring unforeseen developments in the general railroad situation, a continuation of the unbroken record of dividends since 1870.

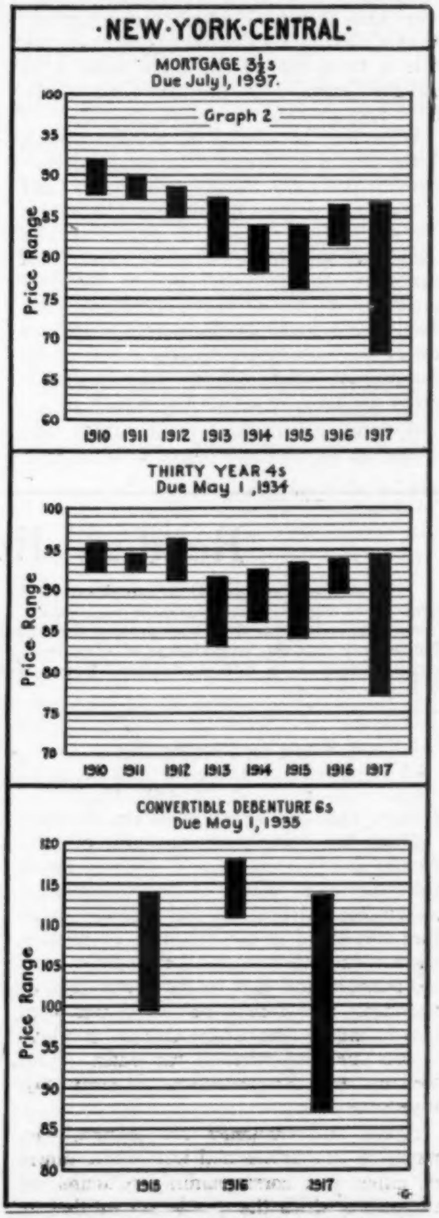
Classification of Central's Bonds

One of the two premier bonds of the System are the Mortgage 3½s due 1997, now selling at about 72, yielding 4.90%. They cover by first lien the 440 miles of road be-



tween Buffalo and New York, all of which is double tracked and over three-fourths four tracked; also the lines between Syracuse and Rochester and between Rochester and Niagara Falls, and other important mileage. Subject to prior liens, they cover about 900 additional miles. They may be regarded as of about as high quality as a railroad mortgage can be. Their rate per mile of $53,653 is but a fraction of the reproduction cost of the immensely valuable main line of the road.

Practically on a par with the Central 3½s are the Lake Shore and Michigan Southern 3½s of 1997, with even a slightly higher market value and secured by first lien on the main line between Buffalo and Chicago, also a two, three, and four tracked line. Neither of these bonds affords a very liberal return, but in the past they have frequently



sold in the nineties where they yielded under 4%.

West Shore First 4s are distinguished as

the record holder for lateness of maturity with a due date of 2361. They cover the 479 miles of road from Weehawken to Buffalo (with branches), which were constructed as a rival to the Central. Their rate per mile is twice that of the Lake Shore 3½s and the Central 3½s, but they yield 5.20% at 77 and are safe beyond all question.

What may be termed the middle portion of the debt is made up of the former debentures of the Lake Shore (two issues), and of the Central (two issues), the Consolidation 4s, the Lake Shore Collateral 3½s, and the Michigan Central Collateral 3½s. These issues are not identical in security, but their variations are not of great importance. They sell to yield from 5.35% to 5.95% and are among the most desirable investments of the System, combining all the security that is really needed with a very fair return.

A peculiar feature of the Central's debt is that the Refunding 4½s of 2013, a $40,000,000 issue junior to the foregoing bonds sells around 82, yielding 5.50%, or less than that obtainable on some of the senior issues. This is explained in part by its eligibility for Savings Banks in New York State, a factor not of real importance to the private investor.

The Convertible Debentures of 1935 are the most speculative issue of the list, and may be considered practically as a preferred stock with the privilege of conversion into capital stock at 105 up to 1925. At the current quotation of 94½, this privilege would become of value after the stock reached about 99¼. As New York Central sold at 114¼ in 1916, and at 121½ in 1912, the conversion feature may easily be of value. Regarded as a straight investment, the yield to maturity is 6.50%. Among the more speculative railroad bonds, Central 6s are one of the most attractive on the list, I think.

Readers' Round Table

[Subscribers are invited to contribute to the Readers' Round Table Department. From our readers we receive many valuable suggestions and interesting ideas, and have inaugurated this feature in order that they may present their problems and their thoughts to their fellow-readers. We believe that this interchange of ideas will prove to the advantage of all. Send in your manuscript addressed to Editor, Readers' Round Table. No names will be used unless permission is given.—*Editor.*]

A Word on Freight Rates

June 5, 1918.

Editor, The Magazine of Wall Street:

Dear Sir: Railroads are built to carry freight and passengers. The character of their service is shown in their designation as common carriers. It goes without saying that a railroad is not fulfilling its mission when it fails to furnish all the carrier service possible and that to the extent that its passenger and freight service is decreased it is failing to furnish the service for which it was intended when it was built. This does not need demonstration. It needs only to be stated.

Speed and frequency are essential elements in this service and the cutting down of either is a corresponding reduction of the service which the people are entitled to receive from the railroads of the country. There is nothing that has contributed more to the prosperity of our country and to the high wages enjoyed by American labor than the excellence and cheapness of American railroad transportation and the decrease in railroad train service under the present government control is the first serious economic blow at the progress and prosperity of our country that has been struck since the beginning of the construction of railroads.

It has been demonstrated that there is a direct connection between the low freight rates of American railroads and the high wages secured by American labor. We all realize that the price of a finished product is the cost of production plus the cost of transportation to the point of consumption, but few of us realize that the lower the cost of transportation the wider the market and thus the greater demand and the higher wage for labor.

Conversely an increase in freight rates means a cutting down of markets and a

falling off in the demand for labor and ultimately a substantial decrease in the wages of labor. The attempt to raise freight rates in order to raise wages is an economic absurdity, the fallacy and impossibility of which will soon be demonstrated.

There is no surer way of decreasing the freight offered for transport on American railroads than to increase the freight rate, for there is always a quantity of low grade freight which will move at a rate but which will not move at a higher rate. To increase the rate of this class of freight 25 per cent means to permanently kill the moving of from 20 to 25 per cent of this class of freight. As to the other grades of freight, the result is to decrease the quantity moved by limiting the market.

Most people imagine that an increase of a freight rate by one-fourth would only cut down the market for that class of goods a corresponding amount, but they are wrong, for the fact in freight transportation is that with a given freight rate any class of freight will be transported a certain distance in every direction from the central point in spite of or in the face of competition. Now the increase of the freight rate by 25 per cent means a cutting down of the radius of distribution one-fifth and as a consequence the market for the product from that central point of production decreases in proportion to the square of the radius. In other words, if at the present freight rates, the radius of a market is 100 miles, a 25 per cent increase in rate will cut down the radius of the market to 80 miles and the total loss of market as a result of the 25 per cent rate increase is as the difference between the square of ten and the square of eight. In other words, a 25 per cent increase in a freight rate means a loss of 36 per cent of the market, and a corresponding decrease in shipping.

The American people are invited to contemplate these, the first results of government operation of railroads. Is it proof of efficiency of operation to confess an inability to handle over 60 per cent of the traffic over the same rails, over which the greater amount of traffic formerly moved, and is economy demonstrated by giving less service at a 25 per cent increase in cost?

That efficient and economical operation which will best serve the labor of the country and insure prosperity to all is to be secured not by reducing service and increasing rates but by eliminating all burdens, taxes and restrictive regulations which have cost shippers so much and like leaches have sucked the life-blood and strength of the railroads. Yours very truly,

GUY M. WALKER.

Bond Yields

In your issue of May 11, on page 185, under heading of Public Utility Bonds, you quote American Telephone & Telegraph Company Coll. 4s, 1929 at 81, to yield 6.30%. Will you kindly advise how you arrive at this yield, as we have recommended this issue to some women customers, and would like to know if you figure this yield by holding to maturity—A., Penna.

At the price of 81 American Telephone 4s would of course give an immediate income return of 4.9%. In addition to this they will rise to 100 by 1929, or approximately 1.7 points a year. This would aggregate about 6.6% yield; but since the additional profit does not come until the end of the 11 year period this of course has to be discounted. There is also some additional income from interest on the interest received each year. When all this is figured out exactly it gives a yield between 6.3 and 6.4%, as shown by the bond tables in common use.

Of course the holder of the bond does not have to carry it to maturity in order to get the yield of 6.3%, because the price of the bond is gradually crawling up to 100 during the entire 11 year period, so that whenever the bond is sold a part of the additional profit is likely to be secured.

TRAINING FOR WAR

A French officer visiting America for the first time, viewed with undisguised amazement the activities of the Curb brokers.

"That's just the way your countrymen are over there," he exclaimed to the American officer with him. "They are the most wide-awake, healthy, active young men in the world. Those fellows over there with us in France must, every one, been Curb brokers, they are in such splendid fighting trim!"—*The Wall Street Journal.*

The A B C of Bond Buying

How the Average Investor May Judge Bond Values

By G. C. SELDEN

I—Why Bonds Exist—Difference Between Bond and Mortgage—The Word "Bond" Means Very Little

WHILE a number of books have been published outlining the general principles of bond investment, describing and explaining the various classes of bonds, and advising which classes should be chosen by different kinds of investors, it is to be feared that the average individual or institutional bond buyer finishes reading these volumes with the feeling that they have shed little light on the most important part of the problem.

The situation of every bond investor is the same to this extent, that he has a certain amount of money available, or has decided to save a certain amount monthly or yearly, and he wants to buy bonds with it which are:

(1) Safe.

(2) Satisfactory from the point of view of interest return.

(3) Likely to continue to sell at a price as high as he paid for them, or preferably to advance.

After reading some of the bond books above referred to, the investor sometimes feels that they have told him everything about bonds except how to obtain these three vital requirements.

From the very nature of the case it would be impossible to lay down any simple set of rules which could be mechanically applied to any bond in such a way as to give an offhand answer to these three questions. There are hundreds of different kinds of bonds—although they all consist, as I shall endeavor to show, of different combinations of a small number of essential elements. The corporations and municipalities issuing these bonds are of almost infinite variety. No two bonds are in exactly the same position as regards their claim on the property of a corporation or their relation to its earnings.

Every bond, therefore, must be approached and tested as an individual bond, not primarily as a member of a class called by some special name. The unsecured bond of one corporation—such as a debenture, adjustment, or income bond—may be many times stronger than the secured bond of another company though backed by a first mortgage on all the company's property. And it is equally true that a company which has doubtful prospects as a whole may nevertheless sometimes be in a position to issue a particular form of bond which is entitled to a good rating as an investment.

For this reason it is highly important that the investor should have a good general idea of the principles which lie at the basis of judging bond values. He can, it is true, get considerable help from various sources in the selection of securities, but firsthand knowledge is always better than secondhand. And he will feel more confidence in his bonds, and therefore have less occasion for anxiety in regard to them, if he has selected them after a personal examination of their value.

In these chapters my object will be to set forth as simply and clearly as possible those facts and principles which every bond buyer needs as a background and basis in the examination of any particular bond. At the same time I shall endeavor not to dodge any part of the subject which presents difficulties or complications. It is easy to attain a fictitious simplicity by that method, but distinctly unfair to the reader.

How Do Bonds Come Into Existence?

The fundamental reason for the existence of bonds is to enable the man who wants to engage in business to use not only his own money but also the money of others who do not want to engage in business.

A great many persons come into the possession of money who do not know how to use it—and money will not earn interest unless it is used. A savings bank, for example, could not pay interest on the money deposited in it if the money was merely allowed to lie there idle. The money must be

loaned to somebody who can make profitable use of it and therefore can afford to pay interest for the use of it. It may be loaned to a farmer who wants to increase the stock on his farm, to a grocer who has more orders than he can handle with his own money, to a railroad whose president sees a chance to build a branch line which will be profitable, and so on.

On the other hand, there are many business men who can see opportunities for good profits but lack the money to take advantage of those opportunities. A lumber operator may know of a tract of timber which can be bought at a reasonable price and of a good market for the lumber; he may have the necessary experience and ability to establish a saw mill and manufacture the lumber and sell it; but he may not have the money to handle such an enterprise. And the same in any other line of business.

How are the money and the man to be brought together? Evidently by some sort of borrowing. Any new enterprise will involve the use and ownership of tangible property, in greater or less amount. The promoter of the enterprise can therefore arrange to borrow some money by giving the lender a direct mortgage claim on this tangible property. Perhaps he can get an additional amount of money on the general credit of the company he forms, that is, on its note or debenture. For this he would usually have to pay a higher rate of interest than on money which was secured by tangible property.

He will then need still more money, and to get that he admits a number of other people into partnership in the business, and the stock which is issued is merely the evidence of this partnership, showing the proportional share of the business which each stockholder owns.

The Difference Between a Bond and a Mortgage

A mortgage bond is nothing but a mortgage split up into small pieces, to correspond with the amount the investor may wish to put in. The mortgage is drawn to apply upon the property specified and agreed upon, and to cover the bonds as a whole. All the bondholders together constitute the mortgagees, and can take possession of the specified property, if necessary, by acting together.

Under the common law the mortgagee, or lender of the money, became the actual legal owner of the property and the mortgagor, or borrower of money, could only get it back again by paying interest and principal in full. But under modern conditions the mortgagee cannot properly be considered as the owner of the property, but merely has a lien on it for the amount of his loan and can take legal possession of it if the loan is not paid or if the interest is allowed to lapse.

The actual handling of a mortgage involves examination and valuation of the property, investigation of titles, and many other legal formalities and expenses. And if the mortgage has to be foreclosed these are still further multiplied. It does not pay the lender of a small sum of money to go to all this trouble and expense. But when bonds are issued all these formalities have to be gone through but once for all the bondholders taken together.

The individual bondholder, therefore, ordinarily has nothing to do but buy his bond and clip the coupons, or sell it if he is so minded. If foreclosure becomes necessary a bondholders' committee has to be formed to handle the matter.

For the average investor, therefore, a bond is much more convenient and economical than a mortgage, and for that reason a mortgage is nearly always split up into bonds if the amount of money required is large enough to warrant that method.

A mortgage can be placed upon any kind of property, whether real estate, plants and machinery, personal property, or any form of collateral securities such as other bonds, notes, and stocks—upon anything, in fact, which has value. Moreover a second mortgage may follow the first upon the same property, a third may follow the second, and so on indefinitely.

Since any sort of a mortgage may be split up into bonds, it is evident that we may have a great variety of different kinds of mortgage bonds. And not only that, but bonds may have no mortgage behind them, but merely the general credit of the company which issues them, just as man gives his personal note without security. In fact, a bond may contain almost any sort of provision, provided that it calls for the payment of a specified amount of money at a

future date. It may be issued without interest, or the interest may be payable only when earned by the company. It may include almost any sort of privileges or restrictions, such as convertibility into another bond or stock, or being paid off after a certain date at the pleasure of the company, and so on.

The Word "Bond" Means Little

It is evident, therefore, that the word "bond" means little or nothing to the investor. The important question is what the provisions of the bond are and what property or whose credit guarantees that those provisions will be carried out.

The average investor has more respect for a bond than he has for a note—yet the bond may be nothing but a note, so far as security is concerned. In fact, it may contain provisions which would make it rank a good deal below a note issued by the same company. I know of a certain small railway which has no securities, and never had any, except first mortgage bonds and equipment notes. The bondholders are really partners in the ownership of the property, except that their dividends are limited to the interest rate specified in the bonds. There would be no object in their foreclosing under any conditions, for they own the whole property now. If that company should make large profits they would necessarily pile up in its treasury or be spent in improvements and extensions. There is nobody to whom the profits could be paid out beyond the specified interest on the bonds. That illustrates the fact that you never know what a "bond" is until you examined all factors concerning it.

The first thing the bond buyer ought to do is to eliminate from his consciousness any prestige that the word "bond" may now have there. There are bonds and bonds. From the investment standpoint the word has no significance worth mentioning. It is merely a convenient term by which to designate a piece of paper bearing certain engraved, printed, or written characters.

In considering any particular bond, then, the first question is, What are its provisions? What sort of claim on property and earnings does it give the holder?

While it is true that almost any sort of provision may be included in a bond, there are certain ones which are customary and are met with in nearly all bonds. These have come to be known by names which are in common use. So the investor who has a working knowledge of the peculiarities of bonds in general can very quickly recognize the nature of any special bond in which he may be interested.

The legality of the bond issue was carefully examined into by the house through which the bond was issued, so that it is hardly ever necessary for the investor to investigate that subject. And the general nature of the bond, with any special provisions, is usually summarized in current bond manuals or in circulars issued by reputable bond houses. Hence it is not a difficult matter, in most cases, for the investor to inform himself in regard to the provisions of the bond and its claim on the property.

That subject will be more fully discussed in the next article of this series.

(*To be continued.*)

PUBLICATION DIFFICULTIES

The demands of our Government upon the man power of this country has necessarily created an acute labor shortage. The publishing and printing trades have been hard hit and for that reason it has been trebly difficult to issue this publication as promptly and as satisfactorily as in pre-war periods. We therefore request our readers to be patient since it is necessary that we exercise patience, in the meantime assuring them that we are exerting every effort to bring matters to a normal basis, which we expect to attain in the very near future.—*Editor.*

BOND BUYER'S GUIDE

A Classification of Listed Bonds

Arranged by F. M. Van Wicklen

THE following table includes most of the *active* bonds listed on the New York Stock Exchange. An endeavor has been made to arrange these bonds in the order of their desirability as investments, based upon a combination of two factors, namely, security of principal and income return.

In many cases it is difficult to determine whether a certain bond should be rated above or below another, and in this respect the investor who has uppermost in mind security of principal will no doubt differ as to classification, with one who is concerned primarily with the amount of income received from the investment, and *vice versa.* The arrangement below, however, attempts to balance these two factors.

FOREIGN GOVERNMENT BONDS

	Approximate price	Yield about, per cent.
French Govt. 5½s, April, 1919	98	8.50%
U. K. Gt. Brit. & I. 5½s, Feb., 1919	99¼	6.70
U. K. Gt. Brit. & I. 5½s, Nov., 1919	97½	7.50
U. K. Gt. Brit. & I. 5½s, Nov., 1921	94¼	7.50
Anglo-French 5s, Oct. 15, 1920	91⅞	9.00
U. K. Gt. Brit. & I. 5s, Sept., 1918	99⅝	6.70
Am. For. Sec. 5s, Aug., 1919	97½	7.40
French Cities 6s, Nov., 1919	90	14.35
Paris 6s, Oct. 15, 1921	82¾	12.45
Dom. Canada 5s, April, 1921	96⅝	6.50
Dom. Canada 5s, April, 1926	93	6.20
Dom. Canada 5s, April, 1931	91½	6.00
Japanese 2d Series, Germ. Stpd. 4½s, 1925 (Par value $974)	79½	8.65

RAILROAD BONDS LEGAL FOR NEW YORK STATE SAVINGS BANKS

First Grade:

So. Pac. Ref. 4s, 1955	79	5.30%
C. Burl. & Q., Ill. 3½s, 1949	73½	5.25
At. Coast Line Cons. 4s, 1952	80½	5.25
Lou. & Nash. Unified 4s, 1940	85¼	5.15
Union Pacific 1st 4s, 1947	84¾	5.00
Nor. Pac. p. l. 4s, 1997	80	5.00
Atch., T. & S. Fe Gen. 4s, 1995	80	5.00
C. & North West. Gen. 4s, 1987	80½	5.00
N. Y. Cent. 1st 3½s, 1997	70½	5.00
Pennsylvania Gen. 4½s, 1965	88	5.20
Union Pacific Ref. 4s, 2008	78	5.15
Lake Shore 1st 3½s, 1997	72	4.90
Norf. & West. Cons. 4s, 1996	82¼	4.90
Pennsylvania Consol. 4½s, 1960	96	4.70
C. Burl. & Q. Gen. 4s, 1958	81	5.10
Illinois Cent. Ref. 4s, 1955	79¼	5.30
M. St. P. & S. S. Marie Cons. 4s, 1938	84	5.30
Balt. & Ohio p. l. 3½s, 1925	87	5.75
Balt. & Ohio 1st 4s, 1948	75	5.75
Nor. Pacific Gen. 3s, 2047	59	5.10
Gt. Northern 4¼s, 1961	87	5.00
C. M. & St. Paul Gen. 4½s, 1989	83	5.45

Second Grade:

C. M. & St. Paul Conv. 4½s, 1932	74¾	7.45%
Balt. & Ohio Conv. 4½s, 1933	79	6.75
C. M. & St. Paul Ref. 4½s, 2014	67½	6.70
C. M. & St. Paul Conv. 5s, 2014	75	6.70
Balt. & Ohio Ref. 5s, 1995	80½	6.25
N. Y. Cent. Ref. 4½s, 2013	82	5.45

RAILROAD BONDS NOT LEGAL FOR NEW YORK SAVINGS BANKS

First Grade:		
C. Burl. & Q. Joint 4s, 1921	94	6.25%
Oregon Sh. Line Ref. 4s, 1929	83	6.10
At. Coast L., L. & N. Coll. 4s, 1952	71¼	6.00
Col. & So. 1st 4s, 1929	85	5.80
Lake Shore Deb. 4s, 1928	84½	6.00
Southern Ry. Cons. 5s, 1995	90	5.55
Ill. Cent.—C. St. L. & N. O. Joint 5s, 1963	88	5.75
Seaboard A. L. 1st 4s, 1950	71	6.05
Union Pacific Conv. 4s, 1927	87	5.85
Wabash 1st 5s, 1939	95	5.40
Kans. City Term. 1st 4s, 1960	76½	5.40
N. Y. Cent. L. S. Coll. 3½s, 1998	64½	5.50
Virginian Ry. 1st 5s, 1962	90	5.60
C. Rock I. & Pac. Gen. 4s, 1988	74½	5.40
Cent. Pac. Ref. 4s, 1949	80¾	5.25
Reading Gen. 4s, 1997	82½	4.85
Atch., T. & S. Fe Conv. 4s, 1960	84½	4.85
Second Grade:		
St. L.-San Fran. p. l. 4s, 1950	59	7.30%
Den. & R. Grande Cons. 4s, 1936	67	7.25
Mo. Pac. Ref. 5s, 1923	90½	7.25
Ches. & Ohio Conv. 4½s, 1930	76	7.50
So. Pac. Conv. 4s, 1929	79¼	6.65
So. Pac. Conv. 5s, 1934	91½	5.75
Ches. & Ohio Conv. 5s, 1946	80¼	6.60
C. Rock I. & Pac. Ref. 4s, 1934	67½	7.50
Col. & So. Ref. 4½s, 1935	71⅝	7.50
Kans. C. So. Ref. 5s, 1950	79½	6.50
N. Y. Cent. Conv. 6s, 1935	94½	6.50
Erie Cons. 4s, 1996	67¾	6.00
Pere Marquette 5s, 1956	81¾	6.30
C. M. & St. Paul 4s, 1925	79½	7.60
Mo. Pac. Gen. 4s, 1975	57½	7.15
C. C. C. & St. Louis Gen. 4s, 1993	63	6.50
St. L. So. West. 1st 4s, 1989	67	6.00
Erie Gen. 4s, 1996	54½	7.50
Southern Ry. Deb. 4s, 1956	62¼	6.75
Erie Conv. 4s, "D," 1953	53	8.00
Chic. Gt. West. 1st 4s, 1959	59½	7.00
West. Md. 1st 4s, 1952	60	7.15

INDUSTRIAL BONDS

Central Leather 1st 5s, 1925	95¼	5.85%
Western Electric 1st 5s, 1922	96	6.00
Lackawanna Steel Cons. 5s, 1950	92½	5.50
Nat. Tube 1st 5s, 1952	95	5.30
Beth. Steel Ref. 5s, 1942	90	5.75
Midvale Steel 5s, 1936	86	6.30
Inter. Mer. Mar. 1st 6s, 1941	99½	6.00
Am. Smelt. & Rfg. 1st 5s, 1947	87½	5.90
Rep. I. & Steel 5s, 1940	94½	5.40
U. S. Steel Sinking Fund 5s, 1963	97½	5.15
Indiana Steel 1st 5s, 1952	95	5.30
U. S. Rubber Ref. 5s, 1947	80¼	6.50
Am. Agri. Chem. Conv. 5s, 1924	94	6.25
Wilson & Co. 1st 6s, 1941	95	6.40
Va. Car. Chem. 1st 5s, 1923	94	6.20
Gen. Elec. Deb. 5s, 1952	97¼	5.20

PUBLIC UTILITY BONDS

Am. Tel. & Tel. Coll. 4s, 1929	81½	6.25%
Int. Rap. Tran. Ref. 5s, 1966	81	6.30
Am. Tel. & Tel. Coll. 5s, 1946	90	5.75
N. Y. Telephone Gen. 4½s, 1939	86¾	5.60
Consol. Gas N. Y. Conv. 6s, 1920	99½	6.20
Public Service Corp. N. J. 5s, 1959	78	6.50
Int.-Met. Coll. 4½s, 1956	52½	8.50

Investment Inquiries

New Haven Selling High

R. M. B., Albany, N. Y. —The market price has advanced from around 25 to 44, due to operations of a pool. We see nothing in the situation which justified such a great advance, and certainly cannot recommend its purchase at this time, even on a purely speclative basis. Its earning position has not improved greatly. It will receive a guarantee of between 2% and 3% under Federal control. The Government recently assisted the New Haven with a large loan, but it must be remembered that the shares are a long way from dividends. Anyone who purchases New Haven now should do so upon the belief that the pool in the stock intends to advance it to considerably higher levels, regarding which we have no more information than our subscribers. It is not as attractive as an investment as Wabash "A" or Kansas City Southern preferred. We believe that the long range outlook for the common stock of some of the reorganized rails, such as Rock Island and Missouri Pacific common, are brighter. We also prefer Erie second preferred, which is nearer dividends than New Haven common, and is earning more.

Nickel Plate's 2nd Preferred Dividends Not Assured

L. M. T., Chicago, Ill.—The company has not yet declared a dividend on the second preferred stock for July 2, 1819. It has, however, declared a dividend of 2½%, payable on its first preferred stock on that date. Earnings of the company decreased in 1917, the net income being $850,639, as against $1,557,530 in 1916, after the payment of interest charges. The indicated earnings on the common stock for 1917 was only 0.36%, as against 5.15% in 1916. The company earned barely sufficient for dividends on its second preferred stock. In view of this decrease in earnings, it is problematical whether the dividend will be continued on the second preferred stock. The earnings on the second preferred have averaged around 5% for the past ten years except in 1914, when nothing was earned. Government control should help this road, and the increase in rates recently ordered ought to put it in better condition. There have been some reports that the Lackawanna would take over the Nickle Plate, but there is considerable doubt about it. The Van Sweringers, of Cleveland, Ohio, are now the dominating factors, and indications are that they will manage the property in a conservative manner. This is the belief in Cleveland, where they reside.

Rochester Light & Railway Company Only a Fair Purchase

A. N. D., Boston, Mass.—Rochester Light & Railway Company has had its troubles in common with most of the other public utilities. We would not advise you to purchase its 7% preferred stock at par. This is not by any means a generous yield on a preferred issue of this character, as so many such issues enjoying a better investment rating yield a higher income. We advise you to hold your bonds of this company, as you would suffer a substantial loss by selling at present prices. As to the investment of your surplus funds, The Magazine of Wall Street has recommended so many bargains for safe investment that we suggest that you look over your file and pick out the preferred stocks and bonds described as attractive investments in recent issues.

Purchase of Cosden & Company Not Advised

D. R. R., St. Charles, La.—This company is generously capitalized. That it has over-extended itself in the payment of dividends on large stock issues and in paying interest on bonds is shown by the fact that the company had to resort to an additional stock issue of 635,000 shares. Had the company not tried to maintain large dividends on its capitalization it would have been in a better position financially and might have avoided the resort to new financing in order to meet its heavy burden of floating debts. Its earnings have been decreasing somewhat, due, doubtless, to higher operating costs and possibly to a decline in production. The new Cosden Company cannot be regarded as strong in the matter of production, for its output is very considerably below the actual capacity of its refineries. There seems to be considerable danger of a dividend reduction. We are not advising the purchase of this stock at this time. However, if you are a holder at much higher prices we would not advise the sale at its current low level.

Bonds for Small Investments

T. A. W., Winnipeg, Manitoba.—We suggest that you either place your funds in second grade bonds since you expect from 7% to 8% or in preferred stocks listed on the New York Stock Exchange. You cannot get the most conservative bonds to yield 8%, but you can secure very good preferred stocks which are reasonably safe to net from 7½% to 8%. One advantage of buying preferred stocks is that you can buy one or more. As far as bonds are concerned, you would naturally confine yourself to "baby bonds" for a small investment. We doubt whether you will be able to save the exchange between Canada and the United States by purchasing securities of this country, although your New York broker could sell them and hold the stock in New York, and by so doing you would save something. We suggest that you purchase them through a New York firm, and as a large number advertise in The Magazine of Wall Street you should have no difficulty in securing a good broker selected from our

advertising pages. You can buy such issues as Maxwell first preferred, Wabash "A," Colorado & Southern first preferred, Southern Pacific common, Great Northern preferred, Mexican Petroleum preferred, Studebaker preferred, Cities Service preferred, Virginia-Carolina Chemical preferred, Bethlehem Steel new 8% preferred, Baltimore & Ohio preferred, Kansas City Southern preferred and a host of others of a similar character, but we would have to know your exact requirements in the way of income and grade before recommending others.

Other Bonds Than Ramapo Desirable

C. A. R., Tallahassee, Fla.—There is little to criticize about the bonds of the Ramapo Iron Works, but the whole point is that many excellent bonds are now on the "bargain counters" The Magazine of Wall Street has pointed out during the past year many very attractive ones, all selling at bargain levels, to yield as high as 8%. No bond is really cheap, especially an industrial bond of this character, unless it yields at least 7½%. We would not describe the Ramapo Iron Works bonds as a special bargain, although they are probably safe. There are many others on the list which we prefer possessing possessing as high a degree of safety and as good a yield with better ultimate prospects. Many railroad bonds, such as Colorado Southern 4½s and Kansas City Southern refunding 5s, appear to us more attractive. The Baltimore & Ohio and St. Paul issues are particularly desirable and cheap. In industrial bonds, Midvale Steel 5s are as good as Ramapo Iron Works and even more attractive.

Federal Mining & Smelting, a Liquidating Proposition

A. R. S., Los Angeles, Cal.—Federal Mining & Smelting preferred is speculative and should not be bought or held for an investment. The position of the company has been rendered very uncertain partly by the unfavorable developments in the lead industry, the most significant of which is the decline in the price of the metal. Its properties appear to make it a rapidly liquidating proposition and with normal lead prices some of its mines could not profitably be operated. Its reports for the quarter ended January 31, 1918, showed a deficit of $193,525, as compared with net earnings of $359,929 for the quarter ended October 31, 1917, and net earnings of $316,165 in the corresponding period of last year. However, operations in March, 1918, resulted in net earnings of $64,841, as compared with losses of $33,293 in February and $59,035 in January. While it is to be expected that the price of this stock may advance from time to time as a result of favorable market conditions, our judgment is that from the investment point of view you assume a speculative risk in purchasing or holding.

Magma Ought to Be Held

R. C. W., Portland, Me.—Magma is still in the development stage in the sense that it has prospects of developing very valuable tonnages at lower levels. Its important operations have been directed to opening up its mines for greater earnings to come rather than current earnings. Company has also been handicapped through having a single shaft. When its new three compartment shaft is finished we believe that there will be a very substantial improvement in its reports. It has been unable to estimate its ore reserves for the simple reason that the end of ore bodies is not in sight. They become broader and deeper in depth as development continues. There is no way of estimating accurately the potentialities of the mine. We realize that marketwise the shares have been a disappointment, but this has also been the case with some of the greatest mines such as Utah, United Verde Extension, Ray Consolidated, Chino, etc., not only in the earlier stages of development, but in recent markets.

Do Not Take a Loss on Omaha & Council Bluffs Street Railway Bonds

M. A. R., Lansing, Mich.—Omaha & Council Bluffs Street Railway first consolidated mortgage 5% bonds, due 1928, have a good investment rating. They have depreciated in sympathy with high class bonds of other utilities. This has been due to higher operating costs. If this condition continues over a considerable period of time it is quite likely that there will be an increase of rates to offset it. Over a period of five years the average income available for interest on these bonds was more than double interest requirements. We hesitate to advise you to accept a substantial loss on these bonds, as most other utility bonds have suffered a like loss and are being held for a return to normal earnings and interest rates.

American Hide & Leather Preferred a Sale

R. G., Brooklyn, N. Y.—While the company has had a poor record of earnings for the ten years prior to 1915, its profits since that time have been more than three times the interest and sinking fund requirements on its funded indebtedness. In 1915 it earned 7.65% on its preferred stock, 13.10% in 1916 and 14.17% in 1917. The present prosperity has been due to conditions brought about by the war and cannot be expected to be lasting. From 1905 to 1914, inclusive, it averaged only 2.82% yearly on preferred. Its cash position is not very secure, as it had but $1,063,310 on June 30, 1917. In view of these facts, together with the excess profits taxation and the uncertainties in the market, the outlook for this stock is somewhat uncertain.

RAILWAYS AND INDUSTRIALS

Crucible Steel's Expansion

Increased Earnings Have Enabled Company to Pay Off Back Dividends on Preferred and Put $19,000,000 Back Into the Property—Dividend Outlook for Common

By RALPH CARMICHAEL

CRUCIBLE Steel has been one of the most spectacular of the so-called war stocks. In 1914, when the world conflict started, Crucible common sold as low as 11½, and its highest price in that year was 17. In 1915 it had a remarkable upward move, the high price reached being 100⅞. See Table I.

The improvement in the earnings of Crucible has been no less phenomenal than the advance in the price of the stock. For the year ended August 31, 1914, the company reported net profits of $1,015,039. The following year net profits were tripled, and in the 1916 fiscal year they totaled $13,223,655, a thirteen-fold increase in two years.

Financial Strength

These large earnings have enabled Crucible vastly to improve its financial and physical condition. In the first place, the company paid off 24¾ per cent. of back dividends that had accumulated, on the $25,000,000 7 per cent. preferred stock. Plant facilities were greatly extended, new plants being erected at Syracuse, N. Y., and at Newark, N. J.

A glance at the company's balance sheet shows how its financial structure has been strengthened. August 31, 1914, net working capital stood at $7,204,532, and August 31, 1917, the working capital had been increased to the imposing figure of $18,491,768. At the present time it is several millions larger.

The accompanying graph will give the reader a good idea of the great strides forward that the company has made. In the three years ended August 31, 1917, the surplus, after payment of back dividends and after deducting heavy charges for depreciation and contingencies, totaled $18,892,263, all of which was put back into the property. This surplus is equal to over $75 a share on the common stock. In other words, assuming that the common stock represented nothing but water in 1914, it had assets of $75 a share behind it August 31, 1917, and has considerably more than that behind it at the present time.

TABLE I.
CRUCIBLE STEEL—PRICE RANGE OF STOCKS.

	Preferred		Common	
	High	Low	High	Low
1901	85⅝	75	28⅞	19
1902	88¼	82½	24⅝	16
1903	86¼	27	22	3⅛
1904	58¼	25½	11½	3⅝
1905	71¼	57¾	14	9¾
1906	83¼	70	17¼	9⅛
1907	79½	55	12½	5¾
1908	60	32¾	8½	4
1909	95	52	19¼	6½
1910	94¼	67½	19⅞	9¾
1911	84	73	14⅝	9
1912	99⅞	80½	19⅞	10
1913	95⅞	82⅞	17⅝	11¼
1914	95¾	75	17	11½
1915	112½	84	100⅞	18¼
1916	124⅞	108¼	99½	50¼
1917	117¾	83	91⅞	45¾
1918	91¾	86	68¾	52

Earnings

In the year ended August 31, 1917, Crucible Steel earned $18.90 a share on the common stock, after paying the regular 7 per cent. dividend on the preferred stock

and in addition 23¼ per cent. back dividends. Had it not been for the back dividends the company would have earned 42.12 per cent. on the common stock in that period.

It is estimated that net income of Crucible in the year to end August 31, 1918, will very nearly equal the large earnings of the 1917 fiscal year. The company, however, will have very heavy taxes to pay. On the other hand, there are no more back dividends to clear up on the preferred stock, so that the surplus after charges and taxes will all be available for the common stock. Close to $20 a share is expected.

Capitalization of the company consists of $25,000,000 7 per cent. cumulative preferred stock and $25,000,000 common. The only bonds are $7,000,000 Pittsburgh Crucible Steel 5s, which are guaranteed. Crucible's floating debt has been reduced to small proportions.

The company was incorporated in 1910 as a consolidation of thirteen smaller concerns. Plants are located at Pittsburgh and Midland, Pa.; Canton, Ohio; Syracuse, N. Y.; Newark, N. J., and Norwalk, Ohio. These plants produce crucible and open hearth steel and have an output estimated to represent about 95 per cent. of the crucible steel products in the United States.

Dividend Prospects

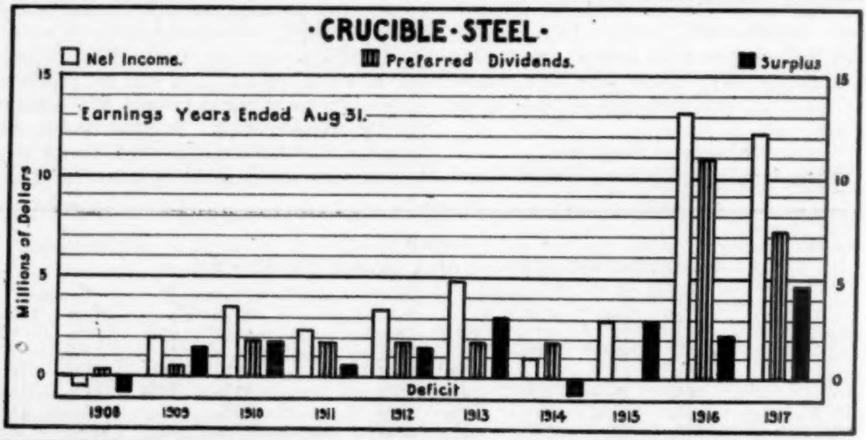
In spite of the fact that Crucible has put many millions back into the property from earnings in the past three years, it is believed that the management will hold off on common dividends for the remainder of 1918. One reason for this attitude is the need of an exceptionally large working capital to swing the great volume of business that is now being handled.

TABLE II.

CRUCIBLE STEEL—PREFERRED DIVIDEND RECORD.

1901..	7%	1906..	6%	1911-13..	7%
1902..	6⅝	1907..	5½	1914.....	3½
1903..	5¼	1908..	...	1915.....	1¾
1904..	...	1909..	3¾	1916.....	13
1905..	1	1910..	9⅝	1917.....	25¾

The prosperity of Crucible is practically assured while the war lasts, as it will have capacity orders from the government. It is true that a large part of the profits will be taken away by taxation but enough should remain to enable the company to start dividends on the common stock in the near future, possibly early in 1919. In the meantime the company is conserving its earnings and will be in a strong position to meet after-the-war conditions.



It is of course too early to make any estimate as to what Crucible will be taxed in the fiscal year to end August 31, 1919. More definite information must be awaited from Washington. However, the most drastic proposition in regard to corporation taxes that has been mentioned in the dispatches from the Capitol is an 80 per cent. excess profits tax. The point should not be lost sight of that Crucible has put nearly $19,000,000 of earnings into the property

since the war and will in all probability be allowed an exemption equivalent to a fair return on this new capital. This should considerably ease the sting of the new taxation program as far as Crucible is concerned.

Position of Stock

At present levels of around 66 the common stock appears to be selling at a fairly conservative price when the value behind it is taken into consideration. Although dividends may not be forthcoming until next year it should be realized that this conservative attitude on the part of the management will put the company in such a strong position financially that, when dividends are resumed, the company should be able to maintain them for some time to come.

The 7 per cent. preferred stock selling around 91 yields 7.7 per cent. on the investment and is a good investment purchase. It has very large equity behind it.

BUSINESS AND FINANCE SERIES

No. XII. PART 2

Post-Bellum Outlook in Shipping Stocks

Atlantic, Gulf & West Indies—International Mercantile Marine—Earning Power and Assets—Outlook for Bonds and Stocks

By J. G. DONLEY, JR.

OWNERS of shipping stocks are uncertain over the post-bellum outlook for their industry. Here are a few significant figures:

From the beginning of the war up to the end of May, 1918, nearly $450,000,000 of new capital has entered the field of shipping and shipbuilding in the United States alone. It is estimated that the United States now has close on to 3,000,000 tons of useful shipping available for the transatlantic service. The output of steel ships for the first quarter of the current year was at the rate of 1,500,000 tons a year, and by the beginning of 1919 it is confidently expected that the rate will exceed 5,000,000 tons a year. There are 330 wooden shipbuilding ways nearly completed, and it is believed that over 2,000,000 tons of wooden ships can be produced annually.

All of this capital, and all these products of capital and labor, and wood and steel, will be striving to make a living when the war is over.

There is one favorable side to the situation, insofar as the after-the-war possibilities are concerned. Since the war began America has become the world's largest exporter of manufactures, whereas prior to the war we were back in third place, being outranked by Great Britain and Germany. In 1917 exports of manufactured goods from the United States were practically four times as much as in 1913 and twice as much as those of Great Britain in 1917.

But, of our 1917 exports, more than 25 per cent. was destined for the battlefields of Europe. Explosives alone amounted to $634,000,000; manufactures of brass, largely for production of shells, $240,000,000; chemicals, which were principally for the manufacture of explosives, $193,000,000; firearms, $97,000,000; wire, $40,000,000, and zinc, $40,000,000. The total of iron and steel manufactures of all kinds—and most of these were also for war purposes—exported in 1917 was $1,235,000,000, against $391,000,000 in 1915. When

peace returns what will fill the shipping space that these have occupied?

Some such considerations have fathered recent developments in the world of shipping. Powerful shipping concerns in the United States were not disposing of any of their tonnage in 1915 and 1916. They are to-day. Another manifestation of uneasiness over the future and a desire to prepare for competition has been seen in the extensive movement toward consolidation of British shipping interests. Five important English companies have recently absorbed about half their own volume—measured by capitalization—of smaller concerns, increasing the tonnage under their control by more than 60 per cent.

"Agwi's" Assets

The investor in shipping stocks cannot afford to ignore these evidences of uncertainty regarding the position and profits of the world's shipping after the war. It would seem that the safest way to approach the question of the marine stocks is from the viewpoint of asset values, and preference should be given to those issues which have a record of fair earnings in the pre-war days.

The Atlantic, Gulf & West Indies Steamship Lines have built up a substantial equity back of the preferred and common stocks out of the profits of 1915, 1916 and 1917.

"If the business of the year 1916 was extraordinary, it has been more so during the year 1917," said President Stone, of this company, in his annual statement to stockholders recently published. He directed attention to the comparative statement of income account. But the balance sheet comparisons were equally extraordinary.

On Dec. 31, 1916, the company's "bills payable" actually exceeded "bills receivable" by $725,993, while at the close of 1917 this position had been strongly reversed, and there was an excess of receivables over payables of fully $1,592,186. The 1916 balance sheet showed a profit and loss surplus equal to $98 a share on the common stock. By the end of 1917 this had grown to fully $150 a share. Cash was equal to about $37 a share on Dec. 31, 1916, as compared with $60 a share on Dec. 31, 1917.

At the same time Atlantic, Gulf & West Indies' funded debt has been reduced from $27,090,000 to $25,721,000, and a small real estate mortgage of $40,000 has been lifted. Reserves, including $5,400,000 for taxes, have increased from a total of $4,719,423 to $16,086,439 in this latest extraordinary year. Moreover, among the assets of the holding company and its subsidiaries are $5,514,000 United States Liberty Loan 3½s, $3,729,000 Liberty 4s, and $3,000,000 4¼s. Truly, here is a company that has salted away something worth while out of its war profits.

"Agwi"—as it is affectionately dubbed in Wall Street—has not published a consolidated income account except for the last two years. Its earnings for the six years previous, which, as a holding company, came from dividends on stocks of subsidiaries and other companies, and interest on investments, loans, etc., were as follows on the preferred stock:

1910	3.66%	1913	1.49%
1911	1.55	1914	4.34
1912	1.22	1915	9.53

Earnings results as shown in the consolidated income accounts of 1916 and 1917, and the total net income of its principal subsidiaries—Clyde S.S. Co., Mallory S.S. Co., New York & Cuba Mail S.S. Co., and New York & Porto Rico S.S. Co., and subsidiary companies—for the previous seven years, were as follows on the approximately $15,000,000 Agwi preferred and $15,000,000 common stock.

	Preferred	Common
1909	6.79%	3.19%
1910	5.76	....
1911	5.59	....
1912	6.41	1.34
1913	10.29	4.15
1914	6.29	....
1915	20.29	7.75
1916	54.98	50.02
1917	61.8	52.02

In the last two years Agwi has been able to earn its fixed charges nearly eight times over, and it has always had a fair margin over interest charges on its collateral trust 5s. In 1913, there were $12,562,000 of these bonds, which are secured by deposit of practically the entire stocks of the Clyde S.S. Co., Mallory S.S. Co., New York & Cuba S.S. Co., and New York & Porto Rico S.S. Co., outstanding. By the end of 1917 the outstanding amount had been reduced to $11,552,000, or by more than $1,000,-

000, of which $826,000 par value were purchased at the market price during 1917.

During 1917 Agwi also purchased 12,370 shares—par value $1,237,000—of its preferred stock at $60, or under, bringing the outstanding amount down to $13,742,900 at the end of the year.

Agwi's marine equipment was slightly reduced during 1917. The steamships "Havana" and "Saratoga," owned by the New York & Cuba Mail Steamship Co., were commandeered by the United States Government for use as hospital ships and $4,480,000 in cash paid for them. For the loss of the Massapequa while under charter, the French Government paid the company $940,000. Seven ships of the Mexican Navigation Co. were sold to the Sisal Commission of Yucatan, the company receiving $2,000,000 in cash and $2,250,000 in 6 per cent. notes of the commission indorsed by a bank of unquestionable standing. Including these notes, there was left in the treasury of the Mexican company approximately $5,000,000 after payment of all known liabilities and $273,153 war taxes. During the year Agwi built two new freight ships costing over $1,120,000, which are now being operated by the Clyde Steamship Co., and two large freighters which were contracted for in March, 1917, at a cost of approximately $1,200,000, each have been taken over by the Government. Two combination freight and passenger ships were also taken over by the Shipping Board for transports, but the terms of settlement have not yet been determined. At the end of 1917, Agwi had approximately 76 steamships, 19 tugs and 145 lighters, allowing for the deductions and additions as noted.

It is likely that so long as earnings are maintained at even half the current rate, the policy of purchasing the collateral 5s in the open market will be continued, and hence their price should be well sustained. In the collateral back of them is vested ownership of the holding company's valuable subsidiaries and their interest is being well covered. They are an attractive business man's investment. The 5 per cent. non-cumulative preferred stock appears to be well bulwarked by asset values, and is also attractive investment around 61. The common stock is a good speculation. It has possibilities of extra payments, and may eventually be placed in a very strong position by further retirements of the preferred. The preferred stock was placed on a 5 per cent. basis for the first time in 1917. The common paid 3¼ per cent. in 1916, and dividends were begun at the rate of 10 per cent. per annum in 1917, and have been continued since.

Mercantile Marine's Big Deal

The impending deal which is being negotiated for the transfer to British interests of approximately one hundred ships with a combined tonnage of a round million, now flying the British flag, overshadows all other considerations so far as the immediate future of the securities of the International Mercantile Marine Co. are concerned. Such a transfer, if consummated, will be of a magnitude unprecedented.

It is hardly to be expected that this transaction, involving a consideration of fully $125,000,000, could be put through without causing a veritable furore of speculation in the securities involved.

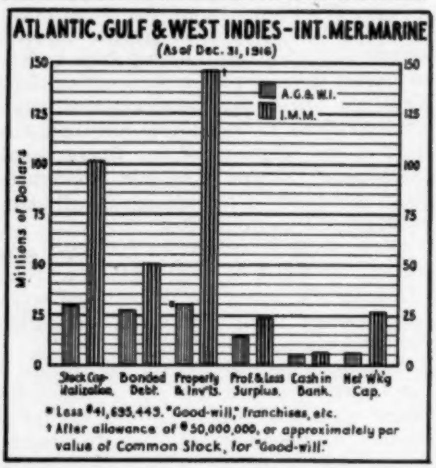
Taking a general view of the matter, it is interesting to note that the statement has been made—and has so far escaped denial—that the impelling factor in the contemplated sale of tonnage is that the dominating interests believe the rapidly increasing supply of tonnage will before long make its influence felt upon the value of existing bottoms.

The most important phase of the financial side of the transaction is the question of taxes. It is likely that an American excess profits tax will have to be paid in addition to the British impost. The wide variance of opinion on this subject is revealed by the current estimates, which range from $12,000,000 to $36,000,000. There is the possibility that the whole tax issue may be side-stepped by arranging for the British Government to purchase the securities of the British subsidiaries, later turning them over en bloc to the syndicate.

After the British ships have been disposed of, it is understood that a plan will be broached for the creation of an entirely new American shipping corporation which will take over the residue of tonnage flying the American flag, and build up from this nucleus a strong all-American organization. There will be left six ships of the American Line, two belonging to the Atlantic Trans-

port Company, of West Virginia, and two owned by the Societe Anonyme de Navigation Belge-Americaine. There are other vessels which may later come under the control of the projected American company, as all ships under construction were commandeered on the ways last August by the Shipping Board.

As a matter of fact, every one of the British ships has been under requisition charter to the British Ministry of Shipping since April, 1917. The Belgian ships are under requisition by the Belgian Government, and the American ships are all under government control.



Outlook for Marine's Bonds

Of course, the creation of a new company will involve the liquidation of the old. Under liquidation the bonds will receive first consideration, and in view of the tax uncertainties, they are the only portion of the capitalization that can be given a definite and assured rating. There are some $39,000,000 of the International Mercantile Marine Co. first mortgage and collateral trust 6s, of Oct. 1, 1941, outstanding. They are a direct obligation of the company and secured by a first mortgage on all its property.

They are redeemable at 110 and interest on any interest date upon four week's notice. The next interest date will be Oct. 1 next. Official announcement has recently been made that the deal is progressing smoothly, and that it is not likely to meet with any unsurmountable obstacle. Retirement of these bonds will have to be the first step in its accomplishment, and they offer very attractive possibilities around the present level, close to par.

Redemption of the collateral 6s at 110 would call for approximately $43,000,000 cash. Next in line would come the $51,725,500 preferred stock. The best available information is that the offer of $125,000,000 for the British tonnage includes only the ships, and does not cover the assets of the British companies. All these companies made enormous profits during 1915 and 1916, up to the time the British Government requisitioned their entire fleets, paying them the standard "Blue Book" rates, together with fees for operation and management, calculated on the basis of 5 per cent. of the gross freight list, taking rates as of January, 1916. Their treasury assets are estimated at between $45,000,000 and $50,000,000. Adding these assets to the cash consideration mentioned would make a total of about $175,000,000. Allowing $43,000,000 for the bonds, would then leave about $132,000,000, before taxes, for the liquidation of the stock. Figuring the taxes at the maximum estimate of $36,000,000, there would be left $96,000,000 for the stocks. The 67 per cent. in accumulated dividends on the preferred stock would require about $35,000,000 for their liquidation, making a total of about $87,000,000 as the requisite for retiring the preferred stock at par, plus back dividends.

Preferred Can Be Paid Off

This calculation makes it appear likely that the preferred can be paid off in full, if the controlling interests so desire. Its present price around 104 is in deference to the uncertainties of the deal, but it should be a profitable purchase on all dips below par, pending the consummation of the plan.

There would be about $9,000,000 in cash, or liquid assets, left for the common stock—along with the American ships.

The position of the approximately $50,000,000 common stock is not clear, however, and in the final stages of a transaction involving such a huge sum the estimated remainder might easily be wiped out in the adjustment of taxes, leaving the common stock with simply the American tonnage.

Based on the apparent value of the British ships set by the offered price, the American ships would appear to be worth about $12,000,000. At best the common is a speculative proposition, as its future hinges entirely on the course of the shipping business after the war.

The International Mercantile Marine Co. published nothing more than an estimated income account for the year 1917, without any balance sheet. Comparisons between the capitalizations, bonded debt, surpluses, cash holdings, etc., of the I. M. M. and Agwi are made in the accompanying graph on the basis of the balance sheets of Dec. 31, 1916.

Net earnings of $11,070,543, as estimated for 1917, compare with $26,027,296 in 1916. Gross earnings, after providing for British excess profits taxes, and including miscellaneous earnings and insurance fund surplus for the year, were given as $57,254,818, as against $88,449,726 in 1916.

Previous to 1915, I. M. M. was never able to earn more than 4.44 per cent. on its preferred stock, this result being achieved the year before the war. A comparison of earnings on the stocks for the last three years of prosperity is shown in the following table:

	Preferred	Common
1915	26.26%	21.45%
1916	42.10	37.45
1917	21.4	15.9

With the heavy blanket of back dividends on the preferred above them, the indicated earnings on the common are of academic interest only.

To summarize, in conclusion: The Atlantic, Gulf & West Indies bonds and preferred stocks have a sufficiently strong asset position to rank as investments, while the common is a good speculation. The International Mercantile Marine bonds and preferred stock have attractive possibilities, if liquidation is accomplished before the apparently inevitable depreciation of tonnage value comes in the wake of enormously increased production. Marine common is at present a rather uncertain speculation.

Director-General McAdoo has divided the railroads of the United States into seven great operating divisions with a Regional Director for each division. The divisions as shown in the accompanying map comprise the territory under the different Regional Directors, who are answerable to the Director-General.

Each division is subdivided into districts, with Federal managers for the districts, and general managers for the individual roads.

Right and Wrong Methods of Investment and Speculation

XV—Depend on Yourself, Not on Your Broker

By RICHARD D. WYCKOFF

ONE of the purposes of the educational articles we have presented in this magazine, beginning with the first volume, is to instruct the reader so that he will be able to depend upon himself.

In our analytical articles we show, between the lines, how a security should be analyzed. In our investment articles we show why certain securities are sound investments. In our Traders' Department we strive to present the most efficient methods of deriving a profit from the fluctuations, just as business men and manufacturers anticipate supply and demand in their respective fields.

We adopted this policy at the outset, and have held closely to it ever since. Eleven years ago the public was far less informed on these subjects than it is today. We feel that we have in some degree impressed upon our readers the necessity for study and practice, but there is a vast work to be done if the public as a whole is to be educated so that it will undertake these matters in a common sense business way, instead of in the light of gambling operations.

Any one who will spend a little time in a brokerage office will soon realize that the public is far from the point where it is able to depend upon its own knowledge and judgment. Listen awhile to the conversations between client and broker, and you will see that in most cases there is a sad lack of knowledge on the part of those who attempt to operate.

The client, let us say, has never before made an investment or speculative purchase. He comes into the broker's office, and announces that he would like to open an account. The broker accepts his deposit, then asks what he has in mind. The broker does not know how well the client is informed about the business, because the client, through false pride, conceals his ignorance. An order is given and executed; the client idles about the office, and is gradually drawn into the conversation that pervades the place. He hears another client talking learnedly about the position of Union Pacific; another proves that Baldwin Locomotive is a sale; the third shows the effect of what he considers heavy taxation on the industrial shares.

The client goes to the broker, and inquires what he thinks about the transaction that the client has just entered into. The broker gives his opinion, and the client is encouraged, or not, as the case may be.

Clients Demand Too Much

The truth is, the broker should not be asked which way the market for that particular stock is likely to go. He has quite enough to do to efficiently manage his business. He should be free to execute orders and carry out the other functions peculiar to the brokerage business, without undertaking the responsibility of giving advice; for this is a precarious undertaking—no one knows this better than those who have tried it.

The great majority of clients demand advice, feed on advice, then do as they see fit. It would be a great day for Wall Street if they could be made to study the science of investment and speculation before venturing their money.

Consider the poor broker: All day long he is obliged to answer questions, some intelligent, mostly not. They run like this: Do you think Republic is a purchase? Will Bethlehem Steel increase its dividend? Will Congress pass a new revenue bill? Do you think peace would be bullish or bearish? Is American Writing Paper common a good investment? Do you think we shall have a rally? Is there a big short interest in General Motors? If I sell now, do you think I can buy it back cheaper? And so on, in a thousand different forms.

Do you wonder brokers are nervous, occasionally take to drink, and frequently die young?

Suppose a client, instead of becoming an operator in stocks, decided to be a mining

engineer. Would he go to Columbia College, register his name, hear the first lecture of a course, then go out West to examine a mine? And if he did, would he, after his one lesson, wire back to the professor, "Down in the 300 ft. level I find some chunks that glitter—do you think this is gold?" Would not the professor be justified in wiring back, "If not gold it is something else?"

The broker usually starts in the clerical force and gradually works up to a high position or a partnership. He must provide the necessary capital, buy a Stock Exchange seat or secure a partner who owns one, establish a clientele, run an expensive office, carry a lot of clerks through dull periods, look after margins, execute orders promptly and satisfactorily, and always be Johnny on the Spot.

For executing a hundred share order he receives a commission of $12.50, on the majority of stocks. In some cases it is less. This service alone is worth the commission. He should not be asked to do more.

Workers vs. Leaners

To require your broker to steer you through the rocks and shoals of Wall Street is to ask of him more than you are paying him for. He is willing to do his best, because competition is keen. But while custom demands that your broker advise you, this does not necessarily make it right and proper that he should.

The fact is, you should learn to depend upon yourself.

It may take months, or even years of preparation, but it will be well worth while. The result will probably be that you will make a success instead of a failure of the business.

Start now. Learn so that you know, and do not guess. Get the facts and the statistics from your broker, but do not ask his opinion—cultivate one of your own instead. It will be better for you and better for the broker.

The world is made up of two kinds of people—Workers and Leaners. The Workers get somewhere; the Leaners seldom do. Every one who asks the opinion of his broker is a Leaner to that extent. He will not travel very far along the road to success, because the broker is not infallible and cannot always be right, and the peculiar part of it is that when he is right, the Leaner generally ignores his opinion.

If you take your broker's advice, and it results disastrously, you blame him. If you make a profit by his guidance, you forget that it was he who guided you, and plume yourself on the delusion that you are a great operator.

The broker has my sympathy.

(SERIES TO BE CONTINUED.)

It is hard for the average man to oppose what appears to be the general drift of public opinion. In the stock market this is perhaps harder than elsewhere; for we all realize that the prices of stocks must, in the long run, be controlled by public opinion. The point we fail to remember is that public opinion in a speculative market is measured in dollars, not in population. One man controlling one million dollars has double the weight of five hundred men with one thousand dollars each. Dollars are the horsepower of the markets—the mere number of men does not signify.

This is why the great body of opinion appears to be bullish at the top and bearish at the bottom. The multitude of small traders must be, as a plain necessity, long when prices are at the top, and short or out of the market at the bottom. The very fact that they are long at the top shows that they have been supplied with stocks from some source.—*Psychology of the Stock Market.*

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

Companies Which Have Reported for 1917.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

	Dollars Earned Per Share.						Present		Yield	
	1912.	1913.	1914.	1915.	1916.	1917.	Div. Rate.	Recent Price.	on Price.	
Allis Chalmers pfd..........	.....	4.77	—0.15	6.80	19.97	24.36	7	85	8.23	Record business. Large, unfilled orders.
Amer. Agri. Chem. com......	7.34	5.23	7.68	10.96	20.57	21.11	6	95	6.31	Outlook encouraging, a semi-peace stock.
Am. Beet Sugar com.........	13.50	3.87	2.29	8.68	19.17	38.84	8	66	12.12	Government price insures profit.
Amer. Can com..............	8.86	5.21	3.61	5.20	12.31	21.84	0	44⅜	0.00	Government business. Very prosperous.
Amer. Car & Foundry com....	2.46	4.10	5.53	0.77	2.39	27.36	8	81¼	9.85	Record prosperity. Expects large orders.
Amer. Cotton Oil com........	6.49	3.38	1.98	7.05	6.99	4.56	4	41	9.76	Improved position, products in demand.
Amer. Hide & L. pfd........	3.37	3.79	0.85	7.65	13.10	14.17	5	72	6.94	Earnings favorable. Funded debt decreasing.
Amer. Linseed pfd..........	—2.85	2.96	1.83	6.01	8.83	10.53	7	81	8.64	Earnings large. Now out of debt.
Amer. Loco. com.............	0.47	17.74	1.30	13.00	36.07	21.81	5	63¼	7.9	Benefits by war or peace. New foreign orders.
Amer. Smelt. & Ref. com.....	11.47	7.47	6.51	17.15	31.79	*12.47	6	76	7.9	Mexican situation settled satisfactorily.
Amer. Steel Foundries........	4.53	6.01	—1.35	—1.20	19.89	24.49	7	66	10.61	Dividend increase warranted by earnings.
Amer. Sugar Ref. com........	5.34	—0.25	4.82	4.99	11.48	11.25	7**	109½	6.39	Government price restrictions.
Amer. Tobacco com..........	30.42	28.12	21.04	20.06	22.70	25.21	20	166	12.65	Margin over dividend good.
Amer. Woolen com..........	2.09	—9.89	—0.06	6.40	15.31	40.42	5	57	8.77	War orders record breaking. Late war bride.
Amer. Zinc com..............	8.59	—4.65	1.82	109.65	187.48	21.78	0	15½	0.00	Earnings greatly improved.
Anaconda Copper	7.32	5.22	3.77	7.16	26.80	14.72	8	63⅝	12.57	Expected to continue dividend despite taxes. Output normal.
Baldwin Loco. com...........	11.49	13.09	—5.25	7.14	6.09	40.22	0	87	0.00	Record earnings.
Barrett Co. com.............	10.55	10.80	10.31	20.42	32.38	20.61	7	88	7.95	Strongly intrenched.
Bethlehem Steel com.........	6.86	27.45	30.59	112.49	286.30	44.20	10	82⅝	12.13	Earnings excellent.
Burns Bros. com.............	.....	3.63	4.84	9.08	10.03	17.99	10	121	8.26	Earnings helped by high prices. Cash dividends increased.
Butte & Superior.............	.....	3.47	5.21	33.47	30.58	.94	0	21¼	0.00	Lawsuit hurts outlook.
Cal. Petroleum pfd...........	.....	11.59	11.36	6.15	8.07	11.61	4	63½	6.30	Shows big improvement.
Central Leather com.........	8.58	5.18	6.41	10.82	33.14	30.41	5	65½	7.63	Gov't business. Heavy excess tax.
Chino Copper	2.80	3.51	3.44	7.65	14.40	11.27	4	38	10.53	Output increased.
Col. Fuel & Iron com........	4.79	4.58	—3.11	—1.44	5.96	†4.57	3	48	6.25	Record working capital and surplus. Bonds called.
Continental Can com.........	.....	4.88	10.69	12.05	22.38	29.36	6	71	8.44	Government business helps. Increased production.
Corn Prod. Ref. pfd.........	6.43	8.68	9.26	12.64	17.76	38.05	7	100	7.00	Earnings exceptional; prospects encouraging.
Crucible Steel com...........	6.82	12.84	—2.94	5.39	45.89	42.13	0	62⅜	0.00	Record earnings and dividend expectations.
Cuba Cane Sugar com........	.....	.....	.....	.....	17.36	.....	0	30¾	0.00	Earnings should improve.

Distillers' Securities	1.71	1.17	2.28	4.64	4.10	14.83	2§	57¾	3.46	Brilliant earnings, stored whisky valuable.
General Chem. com.	21.72	19.19	18.72	44.26	86.76	55.19	8	180	4.45	War earnings. Outlook bright.
General Electric	12.43	12.88	11.12	11.56	18.31	26.50	8	144¾	5.44	Heavy inventories, but good business. Record sales.
Goodrich (B. F.) com.	3.34	1.11	4.12	15.68	12.76	14.49	4	44¾	8.94	Operating costs heavy. Record business.
Great Northern Ore	1.75	0.71	0.54	0.70	1.30	.....	0‡	33	0.00	Dividend payment resumed.
Greene Cananea Co.	4.31	2.33	1.97	1.04	7.03	.....	8	41½	19.28	Mexican situation improved.
Gulf States Steel com.	.....	.....	.....	10.17	28.77	32.76	10	84¼	11.87	Tax and price fixing burdensome.
Inter. Agri. Corp. pfd.	11.12	—1.24	0.65	—0.47	9.80	9.31	0	58¼	0.00	Financial outlook bright.
Inter. Har. N. J. com.	.....	14.54	13.41	16.19	21.46	29.77	7	127¾	5.48	A peace stock.
Inter. Mer. Mar. pfd.	7.32	4.45	—0.58	26.26	42.10	.....	6	103⅛	5.79	Funding back dividend—prospects better.
Inter. Nickel com.	6.57	2.95	2.80	3.33	6.70	7.78	4	27½	14.54	Taxes onerous, but outlook good.
Maxwell Motor com.	.....	.....	0.30	5.53	29.10	29.62	0	*26	0.00	Making pleasure cars, trucks and tractors.
Mex. Petroleum com.	5.91	11.22	4.78	4.93	15.79	.....	8	94⅛	8.47	Shipping and Mexican situation hopeful.
Miami Copper	2.81	1.75	1.65	4.55	10.39	4.28	4	27¾	14.41	High costs, dividend safe. Plant at capacity.
Nat. Biscuit com.	10.05	9.59	11.74	9.52	8.19	9.87	7	95	7.37	Peace will prove advantageous.
National E. & S. com.	—1.54	1.13	—0.32	2.10	12.74	23.39	6	51	11.98	Dividend increase justified. Strongly intrenched.
National Lead com.	3.81	3.64	3.73	4.86	6.16	15.44	5	61	8.19	Lead prices benefit. Large earnings.
Nevada Cons. Cop.	2.17	1.45	0.74	2.78	7.50	4.83	3	20	15.00	Earnings decreased by high costs and taxes.
New York Air Brake	5.72	6.55	6.41	13.43	82.15	18.94	20	123	16.27	Earnings large.
Pittsburgh Coal pfd.	7.48	10.07	5.06	6.11	11.64	.....	6	84	7.14	Coal price regulation.
Pressed Steel Car com.	0.76	10.56	0.14	3.60	15.01	10.00	7	61¾	11.33	High costs but large orders.
Pullman Co.	8.69	9.28	9.04	8.80	10.32	11.36	8	115	6.96	Increased expenses reduce margin over dividend.
Railway Steel Sprg. com.	5.77	1.31	—0.42	3.10	20.49	32.31	5	53	9.43	Repair business heavy. Earnings large. Bonded debt reduced.
Ray Cons. Copper	1.33	1.49	1.29	2.73	7.43	6.15	3	23¼	12.91	Excellent improvement under difficulties.
Republic Iron & Steel com.	3.54	4.97	.56	6.49	47.95	51.88	6	84½	7.10	Maintains remarkable earnings.
Sears, Roebuck com.	19.34	21.17	21.31	17.57	25.86	18.08	8	135	5.92	Record gross, but profit reduced. Sales increased.
Sloss-Sheffield com.	0.84	2.09	0.21	0.53	14.44	15.77	6	65½	9.16	New management forcing retrenchment. Dividends resumed.
Studebaker Corp. com.	4.82	2.48	13.09	26.55	26.25	9.11	4	45	8.89	Large debt. Dividend not too reassuring yet.
Tobacco Products com.	.....	2.52	1.98	2.69	5.44	9.32	6	64¾	9.32	Maintains heavy business.
United Cigar Stores com.	.....	6.83	7.09	7.69	9.48	.....	8	96½	8.40	Record breaking business.
United Fruit	15.28	14.52	6.19	16.11	24.34	26.72	8	125	6.40	Government regulating rates.
U. S. Cast Iron Pipe pfd.	6.21	5.28	0.29	1.37	12.12	11.18	5	46	10.87	High prices curtail demand.
U. S. Ind. Alcohol com.	5.01	1.94	1.94	14.60	36.13	54.67	16	122¼	13.08	Earnings large. Strongly entrenched.
U. S. Rubber com.	6.31	9.53	8.00	9.51	15.12	28.77	0	58	0.00	High costs and competition.
U. S. Smelt. & Ref. com.	7.20	5.36	1.60	13.93	20.46	.....	5	40¼	12.40	Benefits from high prices. Record output. Report not so good.
U. S. Steel com.	5.71	11.02	.....	9.96	48.46	46.29	5§	98⅞	5.05	Capacity production helps dividends. New plants erected.
Utah Copper	5.35	5.05	5.02	10.70	24.10	17.66	10	80¾	12.38	Expect record business in 1918.
Va.-Carolina Chem. com.	3.28	0.53	3.40	7.55	10.39	10.92	3	49	6.13	Peace will benefit.
Westinghouse Elec. com.	3.20	4.15	5.35	2.43	8.53	12.08	3½	42	8.33	Record war orders strongly financed.
Willys-Overland com.	.....	4.63	3.75	12.56	5.75	3.16	1	19⅝	5.13	Dominant position in cars and aeros. Auto prices advanced.
Woolworth (F. W.) com.	8.73	10.82	10.87	13.19	15.57	16.72	8	113	7.08	Business large; splendid earnings. Peace stock.

*Six months ended June 30. †Six months ended December 31. **3% extra in quarterly installments of ¾% each. §Extra dividends.
‡No regular dividend. Has made two distributions of $1 each this year.

Reading's Hidden Assets

Valuable Equities in Other Companies Which May Some Day Mean a Big Melon for Stockholders—Estimated Earnings Under Federal Control —Reading Iron a Big Earner

By FREDERICK LEWIS

THE common stock of the Reading Co. has perhaps a greater speculative interest than the stock of any other railroad in the country. One reason for this is the fact that in the past several years it has had many spectacular moves in the market.

Reading has been frequently called the "mystery" stock, although there is really no great mystery about it. Reading's so-called hidden assets are well known to everyone who has taken the trouble to look into the matter. The value behind the stock lies to a large extent in the company's valuable equities in other companies.

Melon Rumors

Upward moves in the stock are generally accompanied by rumors to the effect that there is to be a distribution of some of these valuable assets as a melon for the stockholders; in fact, there is hardly a year goes by in which this rumor does not rear its head at least once or twice. As is well known these rumors to date have proved to be without any basis in fact. The recent advance in the stock to over 90 has brought forward again these rumors of a segregation of assets. There is no doubt but that, should the management decide to segregate its various industries, there would be something very handsome coming to the stockholders, but the cry of wolf has been raised often and it behooves the public to be wary. There is, however, some merit to the argument that Federal control of the railroads is making a segregation of Reading's assets a more likely course of action.

Reading Co. owns practically the entire capital stock of the Philadelphia & Reading Railway Co., the Philadelphia & Reading Coal & Iron Co., and the Philadelphia & Reading Terminal Railroad Co. It also owns the entire stock of the Reading Iron Co. and 53 per cent. of the stock of the Central Railroad of New Jersey, which in turns owns 53 per cent. of the stock of the Lehigh & Wilkes-Barre Coal Co.

The Philadelphia & Reading Coal & Iron Co., in line with other coal properties in the United States, has been showing record earnings. In 1917, for example, this company reported net income of $5,436,-633, as compared with only $1,280,048 in the year ended June 30, 1916. In 1917, however, earnings of the Philadelphia & Reading Railway Co. were very poor, as there was a deficit, after dividends, of $1,-656,987, comparing with a surplus of $6,-296,099 in the year ended June 30, 1916. The earnings of the combined properties, therefore, were somewhat less in 1917 than in the fiscal year ended June 30, 1916, $7.40 a share having been earned on the common stock in the former period as against $10.16 in the latter.

TABLE I—READING COMPANY
Dividend Record

	1900	1901	1902	1903	1904	1905	1906-9	1910-12	1913-17
First pfd.	$1.50	$2.00	$1.50	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00
Second pfd.	....	.....	.....	.75	2.00	2.00	2.00	2.00	2.00
Common	....	.....	.....	...	....	1.75	2.00	3.00	4.00

Coal Properties

It is important to bear in mind that the coal properties are not being operated by the Government, as Federal control of the railroads only applies to actual railroad property and not to independent outside industries. The Philadelphia & Reading

Railway is now being operated by the Government and is guaranteed earnings equal to the earnings for the three years ended June 30, 1917, which for this company was a good period. A surplus of approximately $10,800,000 over fixed charges is thus assured.

Taking a very conservative estimate of what Reading will get from its coal properties and the total earnings of the Reading Co. available for dividends will be at least $10 a share on the common stock, or two and a half times the present dividend of $4 a share.

TABLE II—READING COMPANY

Range of Common Stock

	High	Low		High	Low
1901	19	12¼	1910	86⅛	65¼
1902	39¼	26⅛	1911	81	67
1903	34⅝	18¾	1912	89⅝	74
1904	41¼	19⅜	1913	85⅞	75⅝
1905	71⅞	39½	1914	86⅛	68½
1906	82	56	1915	85⅝	69⅝
1907	69½	35	1916	115½	75¼
1908	71⅝	46	1917	104¼	60⅛
1909	86⅝	29	*1918	91⅜	70⅛

* Up to June 12.

This estimate, however, does not take into account earnings of the Reading Iron Co., which even before the war averaged earnings close to $1,000,000 per annum.

While there are no accurate estimates of what this company is earning at the present time, comparison with the growth in earnings made by companies since the war in the same line of business warrants the belief that Reading Iron Co.'s earnings must be running close to the $5,000,000 mark. It is likely, therefore, that earnings of this company, after allowing for taxes, will add another three dollars per share to Reading's earnings. A conservative valuation of the assets of Reading Iron Co. places them at over $20,000,000.

The Reading Iron Co. was chartered in 1889 and acquired ore lands and furnaces from the Philadelphia & Reading Coal & Iron Co. In the period up to 1904 the company paid its 6 per cent. dividend regularly and in addition rebuilt its entire plant out of earnings. It also acquired a substantial interest in the Pennsylvania Steel Co., which was sold in 1915, the company receiving $4,780,509 Bethlehem Steel Co. bonds for its interest in the Steel property.

Whenever the management of the Reading Co. deems the time ripe, the Reading

TABLE III—READING COMPANY

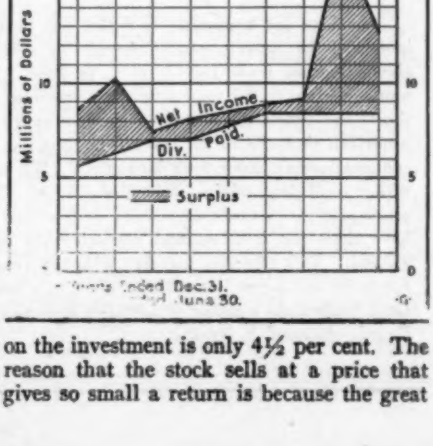
Earnings on Common

1908	$4.36	1913	$8.42
1909	4.12	1914	4.03
1910	5.38	1915	4.23
1911	3.34	1916	10.16
1912	3.41	1917	7.40

Iron Co. can provide the means for a substantial extra dividend for Reading stockholders.

Capitalization

Reading is capitalized as follows: Funded debt Philadelphia & Reading Coal & Iron Co., $990,000; funded debt Philadelphia & Reading Railway Co., $29,447,121; funded debt Reading Co., $119,787,809. First preferred stock (entitled to $2 per share per annum), $28,000,000, par $50; second preferred stock (entitled to $2 per share per annum), $42,000,000, par $50; common stock, $70,000,000, par $50. The common stock is now paying dividends at the rate of $4 per share per annum. (See Table I.) At present prices the yield



on the investment is only 4½ per cent. The reason that the stock sells at a price that gives so small a return is because the great

value of its coal properties and other assets are recognized and because of the belief that sooner or later these assets will be segregated and a big melon handed to stockholders.

A glance at Table II will show the reader what a wide range in price the common stock of Reading has covered in nearly every year. It will be noted also that for the last several years the trend has been upward, that is to say the highest prices have been reached in recent years.

Position of Stock

There is every reason for believing that the assets of Reading are more valuable than the price which the securities of Reading command in the market, but a prospective purchaser should bear in mind the fact that this will not prevent the stock from going down. Reading common is subject to violent declines as well as violent advances, and should the management not favor any segregation of the company's assets at this time it is possible the stock will lose a large part of its recent advance. At present prices of around 91 it is up 31 points from the low point reached in 1917, and should be regarded as in a more speculative position at these levels. Its tendency at the moment appears to be upwards but if purchased now the buyer should be prepared to average his holdings by further purchases on a scale down.

The preferred stocks and bonds are to be regarded as very high grade investments.

FULFILLING OUR DESTINY

On July 1, 1916, we had no merchant marine worthy of the name engaged in overseas trade. It is true that we had under the American flag a total deadweight tonnage on that date of 2,412,381 tons, but approximately 80 per cent of this tonnage was engaged in coastwise and Great Lakes trade. Therefore the vast supplies which we were sending abroad were shipped under terms and conditions laid down by other nations, because the great bulk of our exports was carried in ships flying foreign flags.

We were a great tourist nation, but Americans traveled in foreign ships. We had very few ships going to South or to Central America; very few going to England, France or Germany. We had still fewer going to Russia, Japan and China. There was just one line of old and comparatively slow ships crossing the Atlantic; one line crossing the Pacific and a few lines to Central America and to the Caribbean countries; none to the west coast of South America; none to the east coast of South America; none to our cousins in Australia; none to India; and none to Africa. There were American tourists everywhere. There were also American products ready to go anywhere, but American ships nowhere. We could not serve the world as we should have served it, because we did not have the vehicles of trade.

Now we are beginning to fulfill our destiny. On the 1st of June, of this year, we had increased the American-built tonnage to over 3,500,000 deadweight tons of shipping. In the eleven months from July 1, 1917, to June 1, 1918, we constructed in American shipyards a tonnage equal to the total output of American yards during the entire previous four years. In short, the Shipping Board has added approximately 1,000,000 tons of new construction to American shipping in the last ten months, for it was not until August 3rd of last year that our commandeering order went into effect. We have also added 118 German and Austrian vessels, with a total deadweight tonnage of 730,176. We have requisitioned from the Dutch under the order of the President, 86 vessels, with a total deadweight tonnage of 526,532. In addition we have chartered from neutral countries 215 vessels with an aggregate deadweight tonnage of 953,661. This tonnage, together with the vessels which we have been obliged to leave in the coastwise and Great Lakes trade, gives us a total of more than 1,400 ships, with an approximate total deadweight tonnage of 7,000,000 tons now under the control of the United States Shipping Board.—*Edward N. Hurley.*

Willys-Overland's War Orders

Government Contracts — Capacity Production—Interest in Curtiss—Doing Its Bit for the War

By WILLIAM T. CONNORS

COLD steel and efficient weapons were found to be of vital importance for the equipment of our steadfast marines and other soldiers, when our Government decided to prepare the death blow to the ambitions of the German war lord. An examination of the situation showed that motor car manufacturers were using large quantities of steel which could be employed to a better advantage. The result was a prompt curtailment in the production of pleasure cars.

With this diminished output, a large part of these highly efficient managements and plants could be used in the manufacture of war necessities. Willys-Overland was among the first in production and quantity efficiency. Its splendid organization could be depended on to solve engineering and factory problems and its factories could be utilized and enlarged for quantity war production.

War Orders

There have been varied reports as to the amount of the company's war orders and the degree of activity at its plants. We have just received telegraphic advices direct from an official of the company that war orders amount to $35,000,000, that the Toledo, Elmira, Elyria and Pontiac plants are working to full capacity, that 400 to 500 cars are being manufactured daily and that the company is now employing 23,000 people on its war contracts alone.

Its Toledo plant took over the manufacture of 3,000 gun carriages. It is also being used for the machining of large shells to fill a $10,000,000 order. The Elmira plant had to be enlarged in order to take care of a contract for 5,000 Curtiss O-X-5 eight-cylinder training aeroplane motors. But a delay in the construction of three new buildings caused by the severe weather last fall prevented the delivery of the motors promised in November and December.

This year has shown a decided improvement. March delivery requirement of 700 motors was exceeded by 135 and the 800 motor requirement of April by 203. The output has now reached the promised rate of 1,000 motors a month and can be increased substantially if the Government's requisitions demand it.

A British order for 1,000 Sunbeam aeroplane motors was taken over by the company's Canadian subsidiary, the Willys-Overland, Ltd. They are being manufactured at the Toronto plant. The amount of profits has not yet been determined, but the Government has not been miserly in its contracts. However, abnormal profits need not be expected.

Willys-Overland also owns $2,400,000 of the preferred stock and 60,000 shares of the common stock of the Curtiss Aeroplane & Motor Corporation. Orders approximating $125,000,000 are on its books, some of them on the cost-plus basis. Its new plant is now turning out quantity production. For the year ended April 1, 1918, the company delivered 2,209 aeroplanes. Satisfactory profits are being made and estimates of monthly net earnings of $800,000 do not seem to be too optimistic.

Curtiss has now turned the corner and its financial condition has been satisfactorily arranged through Government aid. Its net income for 1917 was $2,426,996. But instead of declaring dividends it improved its position by writing off $1,500,000 from its patents and good will items. Its surplus was $730,025, equal to $1.42 a share on its common. Willys ought to receive substantial dividends from this source eventually. Its share of 1918 estimated earnings would be approximately $2,400,000.

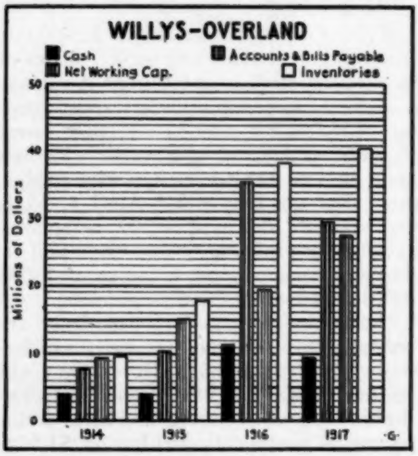
Willys has also gone into the "Ford" field. Plans have been fully matured and some cars turned out. A fleet of them were recently tested in a run from Denver to the Pacific Coast and back to Toledo. The trip took about six weeks and reports show that the cars stood up well and fulfilled the company's expectations. But their manufacture has been delayed by the war.

Plans have been matured to build two

models of trucks, one of a ¾-ton capacity. The other will be considerably larger and the motor power will be furnished by Knight engines. The company is well equipped to carry out such a program and ought to make quantity production at a substantial profit.

Unfavorable Factors

Bills and accounts payable, including an advance of $2,500,000 on war contracts, amounted on December 31, 1917, to $27,364,596. This was an $8,000,000 increase during the year. It was caused by the large sums spent in developing the new low-priced model and in preparing for the work under Government contracts. This resulted in an expansion of approximately $3,691,000 in property account.



These current liabilities ought to be reduced by a substantial amount this year. The company is now manufacturing only a few models of cars and the decreased output will result in a considerable reduction in its burdensome inventory. Bank loans, which were $16,119,700 on December 31, 1917, should show a substantial decline by July 1 of this year. It must also be taken into consideration that these payables were partly offset by $9,593,870 cash, $5,527,520 accounts and notes receivable, and $2,094,715 in miscellaneous investments.

In view of the company's accounts and bills payable item, the declaration of 12 per cent. cash dividends and a 5 per cent. stock dividend in 1917 can hardly be deemed as conservative. There was only about 12 per cent. earned on its common stock. The payment of the cash dividends alone caused a deficit of $352,034, after setting aside $450,000 out of earnings for the retirement of a part of its preferred stock. The stock dividend caused a further depletion of surplus to the extent of $1,965,991, although this item amounted to $24,301,384 on December 31, 1917.

There has been a decided improvement in policy this year when the common dividend was reduced to 4 per cent. annually. This was a wise precautionary measure and strengthened the cash position. It was more drastic than had been expected, but favorable comments were made by those who desired to see the company placed in a much stronger financial position. Another commendable feature was the provision for a reserve, out of the 1917 earnings, of $1,030,000 for tool replacements and $559,940 depreciation on parts of discontinued models, in addition to $1,330,789 charged off for accruing renewals and depreciation. The company also wrote $902,941 off from surplus for development expense, attributable to new work for 1918 deliveries.

Willys-Overland had net tangible assets on December 31, 1917, of approximately $69,900,515. This amounted to twenty times the par value of its 7 per cent. non-convertible preferred stock and nearly five times that of its convertible preferred. The common stock has a net tangible value of $32.88 a share. But this makes no allowance for "good will, patents" and other intangibles carried as an asset at $14,059,932 or equal to an additional $8.92 a share on its common. While many companies are writing off substantial amounts from their intangibles, yet such assets of Willys are of a considerable value and are backed by the great popularity of its cars.

Conclusion

The preferred stock stands out as the most attractive among such motor issues. Earnings for 1917 amounted to 34 per cent. on the preferred as compared with 63.77 per cent. in 1916. The common stock is a speculative investment and should show a considerable market enhancement over a period of years. At its present price it appears attractive.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS and are not to be regarded as RECOMMENDATIONS to purchase or sell.

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor*.

RAILROADS

ALABAMA, TENNESSEE & NORTHERN—Sale Preliminary to Reorganization—Decree of sale was issued by United States Court. Line has been under receivership for two years. It operates from Mobile to Reform, Ala., distance of 186 miles, and serves fertile and well-timbered sections. Valuable terminal sites and large harbor frontage are also owned.

ATLANTIC COAST LINE—Income Increases—Total operating revenues for the first four months of 1918 were $17,659,674, an increase of $2,492,053 over corresponding period of 1917. Operating income was $5,134,554, an increase of $123,506.

ATLANTIC SHORE RY.—Asks Increase in Rates—Has asked Interstate Commerce Commission for increases ranging from 10% to 50% in carload commodity rates between points on its line, based upon mileage, minimum carload weight, a rate for five miles and uniform increase for each five miles' distance.

ATCHISON—Decreased Income—Total operating revenues for the four months to May 1 were $46,607,274, an increase of $3,072,473 over corresponding period of 1917. Operating income was $12,487,388, a decrease of $1,853,732.

BALTIMORE & OHIO—To Double Repair Plant—At cost of $1,700,000, railroad will double its locomotive repair plant at Glenwood. Seven months will be required for work. Contract has been let to Westinghouse, Church, Kerr & Co.

BOSTON & MAINE—Income Vanishes—Total operating revenues for the four months to May 1 were $18,785,400, an increase of $815,291 over corresponding months of 1917. Operating income was $17,070, a decrease of $2,464,453.

CANADIAN NORTHERN—Buys Cars—Ordered 7,430 new cars for delivery September 1, to facilitate movement of millions of bushels of wheat and tons of coal in the western provinces of Canada. Includes 6,000 new steel-framed 40-ton box cars, 250 50-ton steel coal cars, 150 refrigerator cars, 500 40-ton steel-framed flat cars, 250 ballast cars and five baggage cars. In addition, ten switching engines, 50 freight engines and much passenger equipment have been ordered. New stock will make it possible for mines at Drumheller and other properties in Alberta to work at full capacity.

CHESAPEAKE & OHIO—Extension Completed—About three and one-half miles of track finishes Coal River extension of 20 miles between Seth and Whitesville. This does away with long haul of coal trains over mountain from Colcord to Kayford, on Cabin Creek branch, and it opens up rich coal fields.

CHICAGO, ST. PAUL, MINNEAPOLIS & OMAHA—Net Decreases—Total operating revenues for the first four months of 1918 were $7,087,716, an increase of $768,376 over same period of 1917. Operating income was $754,043, a decrease of $511,055.

CHICAGO & ROCK ISLAND—Income Decreased—Operating revenues for first four months of 1918 were $29,066,103, an increase of $2,723,648 over same period of 1917 Operating income was $3,825,360, a decrease of $1,116,133.

DENVER & RIO GRANDE—Operating Revenues Increased—Operating revenues for first four months of 1918 were $9,054,592, an increase of $473,945 over same period of 1917. Operating income was $1,922,651, a decrease of $538,150.

DETROIT & MACKINAC — Earned $195,350 Net in 1917—Report shows net income $195,350. After allowance for preferred dividends of $47,500 balance was equal to 7.39%, compared with income of $281,671 and to 11.70% on common in 1916. Operating revenue in 1917 was $1,350,450, increase over 1916 of $96,348, but operating expenses increased $216,000. Paid 2½% dividends on common, against 5% in 1916 and at close of year had profit and loss surplus of $132,051.

ERIE — Increased Deficit — Operating

revenues for first four months of 1917 were $22,092,892, an increase of $1,667,760 over same period of 1917. Net operating deficit was $2,139,674, an increase of $3,346,883.

MINN., ST. PAUL & SAULT STE. MARIE—Gross Decreases—Total gross for first four months of 1918 was $9,079,973, a decrease of $612,238 under corresponding months of 1917. Net operating income was $634,097, a decrease of $1,641,181. Combined operating revenue of Soo Line and the Chicago division (Wisconsin Central Railway) was $34,540,491 for 1917, while net operating revenue was $11,575,697. Income from other sources amounted to $1,652,231, making total $13,227,929. Fixed charges, taxes, etc., aggregated $8,799,490, leaving $4,428,439 surplus income.

MISSOURI, KANSAS & TEXAS—Deficit Increases—Total gross for first four months of 1918 was $15,668,382, as compared with $12,687,318 in same period of 1917. Deficit after charges were $1,463,541, as compared with $838,354 in 1917.

MISSOURI PACIFIC—Earnings—Total operating revenues for first four months were $27,033,320, and net operating income was $4,882,417.

NASHVILLE, CHATTANOOGA & ST. LOUIS—Income Increases—Total operating revenues for first four months were $5,822,680, an increase of $1,119,556 over same period of 1917. Operating income was $1,128,909, an increase of $165,071.

NEW YORK & NEW HAVEN—Stockholders' Protective Committee—Has applied to President Wilson for increased compensation over that which the company will receive under the railroad Control act. According to the terms of government rental New Haven is entitled to receive net of $15,703,170 applicable to interest and dividends, which, after deducting $12,480,000 interest, will leave $3,223,170, equivalent to 2 per cent on stock.

Committee contends that property value in actual use in transportation service and other public service is equal to the full face value of outstanding funded debt and capital stock, and that an income of 2 per cent on the stock is neither adequate nor fair.

PENNSYLVANIA — Makes 999 Year Lease—With the approval of the Pennsylvania and New Jersey public utility commissions, the company has leased for 999 years all of the property of the Delaware River Railroad & Bridge Company. This includes the double track railroad bridge over the Delaware at Philadelphia, with approaches on both sides of the river. It will pay interest on outstanding $1,238,000 of 4 per cent first mortgage bonds of the Bridge Company and 6 per cent on its $1,300,000 stock.

PENNSYLVANIA CO. — Deficit Increases—Total operating revenues for first four months of 1918 were $22,178,978, an increase of $438,204 over same period of 1917. Operating deficit was $1,670,348, an increase of $2,807,309.

PERE MARQUETTE—Decreased Surplus—Total operating revenues for 1917 were $23,507,855, an increase of $948,601 over 1917. Net operating revenues were $6,126,409, a decrease of $801,614. Surplus decreased to $1,237,206, equal to $5.44 a share on its 5 per cent preferred.

PHILADELPHIA & READING—Shows a Deficit—Receipts from January 1 to April 30, 1918, were $21,932,562, as compared with $20,867,490 in same period in 1917. Deficit after interest and charges was $2,482,531, as compared with a surplus of $1,965,721.

PITTSBURGH, CINCINNATI, CHICAGO & ST. LOUIS—Decrease in Earnings—Receipts from January 1 to April 30, 1918, were $22,973,681, a decrease of $9,912 in same period in 1917. Operating income was $821,169, a decrease of $3,097,849.

READING CO. — Surplus Increases — Receipts from January 1 to April 30, 1918, were $2,426,496, as compared with $2,344,769 in same period of 1917. Surplus was $486,165, as compared with $335,296.

SAN DIEGO & ARIZONA—Seeks Bond Issue—Filed application with Railroad Commission for authority to execute mortgage securing payment of $12,000,000 6 per cent. bonds, payable July 1, 1957. Authority asked for issue under mortgage at this time of $8,000,000 bonds, and company wants permission to issue $5,826,800.23 of 7 per cent. cumulative preferred stock. Desires to issue $2,979,055 of preferred to Southern Pacific Company and $2,847,799.68 to J. D. Spreckels and his brother in payment of advances made prior to Oct. 1, 1916. Of bonds proposes to issue $2,654,930.80 to Southern Pacific and $754,325 to Spreckels for advances made, and remainder to Southern Pacific for advances to be made completing railway line from San Diego to Seeley, Imperial county.

ST. LOUIS & SAN FRANCISCO—Decreased Earnings—Receipts from January 1 to April 30, 1918, were $19,275,623, an increase of $1,863,690 over same period in 1917. Operating income was $2,685,919, a decrease of $2,054,958.

ST. LOUIS SOUTHWESTERN — Income Increases—Receipts from January 1 to April 30, 1918, were $4,379,913, an increase of $702,440 over same period in 1917. Operating income was $1,770,242, an increase of $264,946.

AETNA EXPLOSIVES—Payments ordered—Judge Mayer has signed two orders authorizing the payment of $12,500 each to Receivers Odell and Holt, and $12,500 to Winthrop & Stimson, attorneys for the receivers. They were also authorized to pay to the members of the New York office force an amount equal to 10% of last year's salaries by way of a bonus.

ALLIS-CHALMERS—Declares Preferred Dividends—Regular quarterly dividend of 1¾% on preferred stock, and ¾ of 1% on account of accumulated preferred dividends, both payable July 15 to stock of record June 29. Amount still to be distributed on back dividends is 5.60%. It is stated that net earnings for first five months of this year would be approximately $2,650,000, compared with $1,545,736 earned in five months ended May 31, 1917.

AMERICAN CHICLE—To Discontinue Bond Tax Payment—Up to December 31, 1917, company paid normal income tax on the interest on the $2,227,000 Chiclet Company sinking fund 6% Sen Sen bonds, although they are not tax-free. Due to general increase in all taxation, directors have decided to discontinue payment of this tax in 1918.

AMERICAN LOCOMOTIVE—Earned About $22 a Share—Earnings for fiscal year ending June 30 are tentatively estimated at $22 a share on common, or about the same as the previous fiscal period. For first half of current fiscal year American earned $12.38 a share on its junior issue. Earnings of six months now closing were not as high and probably will run somewhere between $9 and $10 a share. Heavy inventories are carried tying up cash assets and necessitating borrowing from banks.

AMERICAN SUMATRA—Sales—Gross business this fiscal year, to end July 31, estimated at roughly $7,500,000, compared with sales of $4,758,415 for 1916-1917 year. Earnings should amount to between $35 and $40 a share after dividends on preferred. Amount of excess profits tax cannot be known, but allowance for taxes five times as large as those of year ago has been made in this estimate. Meteoric rise to the present level of around 140 has been sensation of New York market. Fiscal year now nearing its close will show $2,000,000 added to net quick assets.

ATLANTIC, GULF & WEST INDIES—Earned $59 a Share in 1917—Report shows a balance of $9,647,513 in 1917 as compared with $8,234,667 in 1916. $52 per share for common after all deductions, including income and excess taxes. Gulf has in round figures $16,000,000 of government issues, including $12,500,000 Liberty bonds, $3,000,000 New York City warrants. Latter mature June 14 and will furnish cash to pay the June 15 income tax. After June 15 Gulf will have approximately $12,000,000 bonds and $9,000,000 cash.

CRUCIBLE STEEL—Breaks Ground for New Plant—New plant will be for manufacture of steel products for the Government and will be rushed to completion. Work is assured for several hundred more men.

EMERSON PHONOGRAPH—No Curtailment—While the War Industries Board has requested talking machine manufacturers to curtail output of phonographs, it has not even suggested a reduction in the production of disc records, which are being increasingly regarded a necessity of war, just as in England and Canada.

GENERAL ELECTRIC—Report—Statement filed with the Corporation Commission dated February 28, 1918, shows cash and debts receivable of $74,784,101, as compared with $42,380,133 in 1917. Merchandise was valued at $81,390,245, accounts payable $6,464,520 and surplus $68,330,916. Payment of 2 per cent stock dividend in January last required issue of some thousands of scrip certificates for fractions of shares, a large number of which are still outstanding. As long as stockholders fail to convert scrip they lose interest, dividends being paid on full shares only. Directors have decided hereafter to pay to stockholders who may desire it cash value of fractions of shares which may accrue to them from time to time in lieu of scrip certificates. Cash value will be determined by the market price of the stock at the close of business hours on the date on which the dividend accrues.

GENERAL MOTORS—Passenger Car Output Decreases—Effects of war in passenger car production are illustrated in report for first quarter. Instead of output of 52,000 cars, as for first three months of 1917, 1918 output was 40,000. This reduction applied principally upon the output of Buick, which made 18,000 instead of 28,000. Cadillac made 3,900 cars, as against more than 5,000 a year ago. At both plants much Government work is being done, while at the Olds and Oakland works production of passenger cars was about 9,400 Oldsmobiles and 8,800 Oaklands.

INTERNATIONAL AGRICULTURAL—Prospect of Preferred Dividend Resumption—Directors will give serious consideration to subject of dividends on preferred, on which there have been no payments since 1913. Prior to that time the stock has been on a 7 per cent basis. Financial position has so improved as to make possible a distribution without impairing surplus accumulated during the past two or three years. Compared with a deficit which exceeded $1,300,000 four years ago, it now possesses a substantial surplus. Its credit position now permits borrowing from banks on its own paper and signature. Loans have been cut down to around $1,000,000; bonded debt, originally $13,000,000, has been reduced to $10,275,700. Among its assets International still holds a 50 per cent interest in one of Germany's large potash mines, but the status of this investment since entrance

of the United States into the war has been difficult to learn. This was carried among International's assets at $1,479,000.

INTERNATIONAL MERCANTILE MARINE—1917 Earnings—Gross earnings are estimated at $57,254,818, as compared with $88,449,726 in 1916. Net surplus at $11,070,543, equal to $21.39 a share on preferred, as compared with $50.31 a share earned in 1916.

INTERNATIONAL NICKEL—Merger of Canadian Companies — International Nickel of Canada, organized in 1916 with capital stock of $5,000,000, increased to $50,000,000, with view to amalgamating with Canada Copper Co., another subsidiary of company as possibly part of plan for avoiding heavy double taxation which would result from payment of war taxes both in Canada and United States. Ontario nickel tax law passed early in 1917 would absorb annually about $750,000 of the earnings of Canadian company.

INTERNATIONAL PAPER—Newsprint Cost $51.63—Company sold 79,231 tons of newsprint in first three months of 1918. Production cost was $51.63 ton, $49.75 is manufacturing cost, $1.07 general and administration expense, 47 cents selling expense and 34 cents shipping expense. In 1917, cost was $45.32 a ton. Price of newsprint at mills was fixed at three cents per pound for quarter, or $60 a ton. Costing $51.63 to produce, there is an apparent profit here of $8.37 per ton. Contrasted with International's cost of $51.63 a ton, Canadian companies produced paper at following costs: Abitibi, $50.13; Belgo-Canadian, $46.66; Donnacona, $48.59; Lawrentide, $47.22; Price Bros., $46.87; Spanish River, $53.77.

JEWEL TEA—Sales—For four weeks ended May 18 last were $1,183,788, compared with $1,186,259 in corresponding period last year. Sales for 20 weeks ended May 18 were $5,900,720, compared with $5,955,425 last year.

MIDVALE STEEL—To Operate Gun Plant—Details of plan for erection of another great gun manufacturing plant by Government for operation by Midvale, are understood to have been completed at conference between Vice-President Neill and Assistant Secretary of War Cole.

NATIONAL CONDUIT—Operating at Loss—Net sales for quarter ended March 31, 1918, were $2,485,846. Loss was $292,413. Owing to fuel shortage factory was closed down for one-third of working days.

NATIONAL ENAMELING—Government work—About 50 per cent of plants' capacity manufacture enameled hospital and culinary wares for Government. Work has been distributed among plants scattered throughout country to expedite delivery at cantonments and effect saving in transportation costs. Manufacture of certain lines of smaller utensils regarded as non-essential has been discontinued.

SEARS-ROEBUCK—Sales—For five months from January 1, sales amounted to $76,239,912, an increase of $1,333,893, or 1.78% over same period of 1917.

SLOSS-SHEFFIELD STEEL — Early Action Expected on Back Dividend—Company has to pay substantial sum in taxes and for this reason action on dividends may be postponed. In announcing expected disbursement directors will probably make it plain that distribution is to cover omitted dividends and is not extra distribution out of current earnings. Although Sloss is now earning sufficient to justify considerably higher dividend rate than is being maintained, $6 year, attitude of the management seems to be one of conservatism. In first quarter of 1918 Sloss earned over $1,250,000, or at rate of about $45 on junior stock. In view of ascending labor costs, as well as advances in freight rates on raw materials, it is hardly likely that this rate of earnings will be maintained throughout year.

UNION BAG & PAPER—Earning $20 a Share—Three months ended April 30, show earnings at annual rate of $20 a share. Actual profits $518.945 after deduction of depreciation charges and $90,000 for taxes. Earnings of St. Maurice Paper Co., Ltd., of Canada, 75% of whose $5,000,000 capital is owned by Union Bag are around $50,000 net a month after interest on $1,500,000 bonds. This represents income accruing to Union of an additional $4.50 a share.

UNITED STATES STEEL—Taxes—In first quarter of current year, deduction of $31,585,198 for the account of Federal income and war excess profit taxes was made. Surplus after all charges, including dividends, was $15,032,502. It spent $35,000,000 for new construction which was not deducted from earnings statement in first quarter.

VIRGINIA-CAROLINA—Gross in Last Fiscal Year Exceeded $90,000,000—There is every indication that for year to May 31 last company showed materially better profits than for preceding 12 months. Year to May 31, 1917, was itself largest in point of both gross and net earnings in company's history, with sales of $83,744,580 and profits applicable to common stock equal to $10.91 share. In its most recent fiscal period sales reached at last $90,000,000 and possibly exceeded that figure by several millions. In two years there has been expansion in sales of possibly $25,000,000.

PUBLIC UTILITIES

Outlook for United Gas & Electric

Refusal of War Finance Corporation to Assist the New Orleans Railway & Light Has Centered Attention on Parent Company—Company Has Excellent Properties with Sound Earning Power in More Nearly Normal Conditions—Comparative Income Accounts

By F. L. FONTAINE

WITH a note issue maturing on June 1, the New Orleans Railway & Light Co. asked the War Finance Corporation for assistance in financing it. To the astonishment of public utility people quite generally, this request was flatly refused. As a result the company has had to ask its noteholders for an extension.

This company is a subsidiary of the American Cities Co., which is in turn controlled by the United Gas & Electric Corporation through ownership of 95% of its common stock.

In view of more or less necessary financing throughout the current year, therefore, it is not unnatural that holders of the securities of the United Gas & Electric Corporation, the parent company, should feel somewhat perturbed over the situation. Just what the immediate future holds nobody knows. But the situation is no different from that confronting most public utilities, particularly those which are finding it necessary to finance. As a matter of fact the United Gas & Electric Corporation is apparently in a better position in this regard than many. The company and its subsidiaries accomplished considerable financing in 1917, at only a very small increase in fixed charges. As a result there are no particularly large nearby maturities to take care of.

In Same Boat with Others

More attention has been drawn to it perhaps because one of its subsidiaries was the first to be turned down by the War Finance Corporation. But there are a number of public utilities with requests already before the board for assistance in financing much larger maturities. The Brooklyn Rapid Transit has an issue of $57,000,000 maturing on July 1st, and has asked for assistance. The Commonwealth Power, Railway & Light Co. wants assistance in the financing of an $8,000,000 issue which matured on May 1st last. It does not appear that the War Finance Corporation can with fairness directly help these companies out of their trouble after having turned down the New Orleans Railway & Light.

It is apparent that public utilities in general are in the same boat. But bankers and public utility men feel that a way out of their extremely troublesome waters will be found. President Wilson himself admitted the necessity for helping the public utilities. It is said too that those who framed the bill in Congress meant that the War Finance Corporation should render assistance to the public utilities in their necessary financing problems. In all probability something will be done to make it apply. That municipalities and public service commissions now realize the necessities of public utilities is shown by the number of rate increases that are being granted.

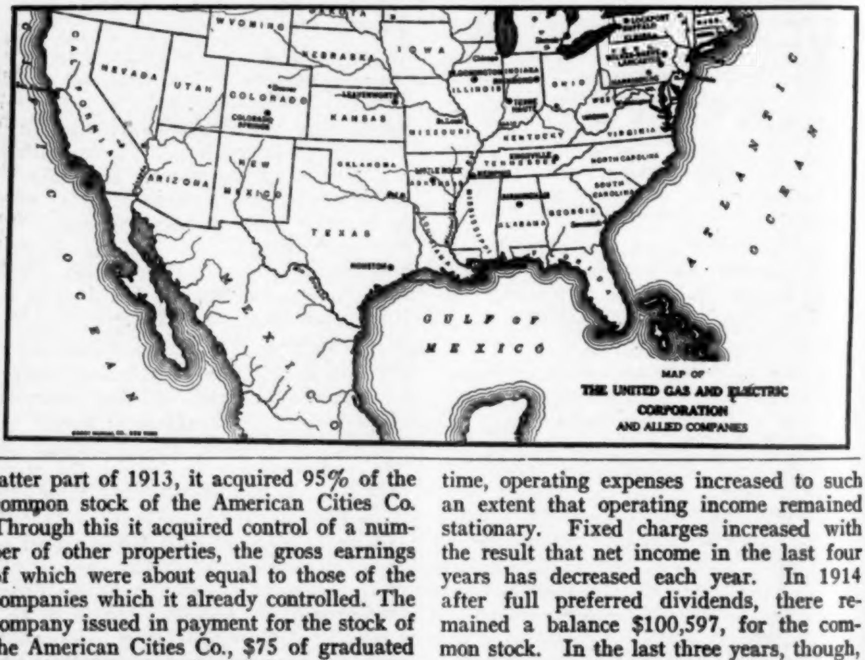
Private Financing Prohibitive

Government financing has made private financing in considerable amounts almost impossible except at prohibitive rates. It is distinctly up to governmental authorities therefore to render assistance in the payment of maturities in cases where the companies themselves would have had no

trouble in meeting them were it not for the conditions resulting through our participations in the biggest and most destructive war in the history of the world. The United Gas & Electric Corporation and its subsidiaries are among the class to which I refer and which need only just assistance to maintain the position which they held before our entrance into the war.

The United Gas & Electric Corporation was organized early in 1912. This was at a time when public utilities were coming into considerable prominence. It acquired control of a number of fine public utility properties, and at that time and later in the development of the South's great resources, these properties which were located in such cities as Birmingham, Ala., Houston, Tex., Memphis and Knoxville, Tenn., Little Rock, Ark., and New Orleans, La., gave promise of great development.

As a matter of fact gross earnings of the subsidiary companies have had a fine increase. In 1912 gross earnings were $13,878,900, while in 1913 or about the time control of the parent company was acquired by the United Gas & Electric Co., they were $14,680,300. In 1917 gross earnings were $16,670,400 an increase of about $2,000,000 in four years. But in the mean-



MAP OF THE UNITED GAS AND ELECTRIC CORPORATION AND ALLIED COMPANIES

latter part of 1913, it acquired 95% of the common stock of the American Cities Co. Through this it acquired control of a number of other properties, the gross earnings of which were about equal to those of the companies which it already controlled. The company issued in payment for the stock of the American Cities Co., $75 of graduated second preferred stock and $25 of common stock for each $100 share of the latter.

Acquisition Not Profitable

Unfortunately it has never received any direct benefit from this acquisition. When the United Gas & Electric Co. acquired control of it, the American Cities Co. gave great promise of developing into a profitable revenue producer. It controlled through stock ownership, a number of old established public utilities in a number of the principal cities of the South. With the rapid development time, operating expenses increased to such an extent that operating income remained stationary. Fixed charges increased with the result that net income in the last four years has decreased each year. In 1914 after full preferred dividends, there remained a balance $100,597, for the common stock. In the last three years, though, the company has failed to earn its preferred stock dividend requirements by a considerable margin. Last year the company earned only 1.74% on its $20,553,500 6% preferred stock.

For a year or two the operation of the Jitney Bus had a considerable effect on its earnings. Just as this danger began to disappear the company ran into the handicaps similar to those of others, namely increased wages and costs. Although gross revenues increased $1,106,100 last year, this

increase was offset by an increase of $1,180,800 in operating expenses.

It seems obvious then that although this subsidiary controls some very valuable properties, it is going to be some time before they will be productive of much if any revenue to the United Gas & Electric Co. It appears then that insofar as the security holders of the latter are concerned, their future position will very largely depend on the results achieved by the subsidiaries exclusive of the American Cities Co.

Some Good Properties

The United Gas & Electric Co. directly controls some exceptionally well located and in normal times prosperous public utilities. The table appended gives a list of them and their relations to the parent company.

Corporate Organization

United Gas & Elec. Corporation (of Conn.)

- I. American Cities Co.
  - New Orleans Ry. & Light Co.
  - Memphis Street Ry. Co.
  - Little Rock Ry. & Electric Co.
  - Knoxville Ry. & Light Co.
  - Houston Lighting & Power
- II. United Gas & Elec. Co. (of N. J.)
  - Wilkes-Barre Co.
  - Richmond Light, Heat & Power Co.
  - Lockport Light, Heat & Power Co.
  - Leavenworth Light, Heat & Power Co.
  - Elmira Water, Light & R. R. Co.
  - Colorado Springs Light, Heat & Power Co.
  - Citizens Gas & Fuel Co.
- III. Lancaster County Ry. & Light Co.
  - Conestoga Traction Co.
  - Lancaster Gas, Light & Fuel Co.
  - Edison Electric Co. (Lancaster, Pa.)
  - Conestoga Realty Co.
- IV. International Traction Co.
  - International Railway Co.
- V. Harrisburg Light, Heat & Power Co.
  - Stielton Light, Heat & Power Co.
- VI. Hornton Gas & Fuel Co.
- VII. Consumers' Electric Light & Power
- VIII. Union Gas & Electric
- IX. Houston Heights Water & Light Association.

They are located quite generally in prosperous growing communities in seven different states in the Union. Among the cities served with various classes of public service are: Elmira, Buffalo and Lockport, New York; Harrisburg, Lancaster and Wilkes-Barre, Pa.; Terre Haute, Ind., Bloomington, Ill., Leavenworth, Kan., and Colorado Springs, Colo. Six of the companies distribute gas alone, two electricity alone, three gas and electricity, one electricity and steam heat, three gas, electricity and steam heat, three operate electric railways, and one a waterworks. It appears then that the companies' properties contain excellent diversification, both as to locality and as to the classes of public service.

The comparative consolidated income account shows a fine record as to gross rev-

TABLE I—CONSOLIDATED INCOME ACCOUNT OF COMPANIES COMPOSING UNITED GAS & ELECTRIC.

(Years ended December 31)

	1912	1913	1914	1915	1916	1917
Gross earnings	$12,173,000	$12,782,100	$13,129,100	$13,564,400	$15,160,100	$16,287,200
Oper. exp. (inc. main.)	6,476,400	6,835,100	6,912,200	6,836,100	7,731,200	8,998,300
Net income.......	$5,696,600	$5,947,000	$6,216,800	$6,728,200	$7,428,900	$7,288,900
Taxes	603,600	673,100	761,000	821,400	967,100	1,156,300
Gross corp. inc...	$5,093,000	$5,273,900	$5,455,700	$5,906,800	$6,461,800	$6,132,500
Fixed charges.........	2,886,400	3,207,700	3,344,200	3,419,800	3,503,100	3,575,900
*Balance for year.	$2,206,500	$2,066,200	$2,111,400	$2,486,900	$2,958,600	$2,556,500

*This balance is available for new construction, financing and dividends of subsidiaries, which taken together comprise the parent company.

enues. Up to the end of 1916, as the table shows, splendid progress was being made in the saving for net income and the balance after fixed charges. To get at the true value of the properties, we must leave last year's operation out of consideration almost entirely. Percentage calculations better show what the subsidiaries were doing up to the end of 1916. Gross earnings in this period increased $2,987,100 or 24.9%. In the same period net income increased $1,723,-300 or 30.21%. Net income therefore was increasing in a greater ratio than gross earnings. Taxes in this period increased 60.59%. Fixed charges increased $616,-700 or 21.27%, while the balance for dividends, renewals, etc., increased $752,100 or 34.2%. In other words, gross earnings, net income and the balance for dividends increased in a greater ratio than fixed charges and the balance of dividends increased in the greatest ratio. Until our entrance into the war, then, the companies each year were getting more and more profit out of each

TABLE II—EARNINGS ON PREF. STOCK

Actual Income

1914	1915	1916	1917
4.81%	4.94%	6.77%	6.40%

Parent company's total equity in surplus of subsidiaries

1914	1915	1916	1917
7.66%	8.87%	8.39%	8.45%

dollar received. As a matter of fact from 1913 to the end of 1917 fixed charges increased only 11.5% while gross earnings increased 27.3%.

Last year the increased cost of coal was $342,000 while the labor cost increased $292,000, a total increase of $634,000 in these two items alone. This was due entirely to war conditions. If it were added to the balance for dividends, the latter would have amounted to $3,190,500 and would have represented an increase of $231,-900.

Subsidiary Earnings Statements

Most of the public utility holding companies give either only a statement of their own actual income or a consolidated income account, but this company reports separate statements of each of its subsidiary companies, and its own equity in the undistributed surplus of these companies. This makes it possible to more thoroughly analyze the component parts of the organization. The company has excellent management and it has very strong banking connections which have a personal interest in its welfare. On its board of directors are such men as R. E. Griscom and S. Reading Bertron, A. J. Hemphill, Sidney Z. Mitchell, Wm. B. Joyce, and Frank A. Sayles.

As with most public utilities, it will continue to have maturities coming due during the war. Much depends on the attitude of the government in respect to assistance in taking care of these maturities. Of course considerable will depend also on how far governmental authorities will go in permitting increased rates to offset the greatly increased cost of operation. But public utility men believe that both of these problems will be successfully solved.

In the light of conditions, there seems to be only one thing to do in respect to the securities of the United Gas & Electric Corp. The present market for these securities appears to have discounted the worst, dividends on the 1st preferred have already been passed and no dividends were ever paid on either the 2nd preferred or the common. All of them should be held, as the silver lining to the dark cloud enveloping utilities should eventually appear.

DEMOCRACY

War Secretary Baker said at a luncheon in Washington:

"Ours will be the most democratic army in the world, for ours is the most democratic country.

"A millionaire, as he climbed into his limousine, snarled at a newsboy:

" 'No, I don't want any paper! Get out.'

" 'Well, keep your shirt on, boss,' the newsboy answered. 'The only difference between you and me is that you're makin' your second million, while I'm still workin' on my first.' "—*Washington Post.*

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

BOSTON ELEVATED RY. CO.—To Accept State Control Act—Stockholders accepted State operation by vote of 174,962 shares. Capital stock will be increased by 30,000 shares of preferred to be offered for subscription at par to stockholders of record June 31, 1918, in proportion of one share new preferred stock for each eight shares of stock now owned; $3,000,000 will be raised by this issue, $1,000,000 to be set aside as reserve and remaining $2,000,000 subject to disposition of trustees.

CHICAGO TELEPHONE—April Revenues—From operation were $1,862,254, an increase of $53,511. Operating income was $402,181, an increase of $70,667.

COLUMBUS ELECTRIC—Earnings Increase—Gross for the twelve months ended March 31 were $1,139,255, an increase of $202,760 over 1916-7. Net was $694,600, an increase of $120,725 over 1916-7. Surplus was $323,977.

GEORGIA LIGHT, POWER & RYS.—Surplus of $58,937—Report for 1917 shows gross earnings of $1,093,412, against $950,855 in 1916. Surplus, after interest charges, dividends, etc., was $58,937, compared with $41,-103 in 1916. Cash was $220,692. Total assets and liabilities were $18,219,851.

HUDSON & MANHATTAN—Revenues—Gross for first four months of 1917 was $2,280,554, as compared with $2,107,514 in 1917. Net income was $1,004,627, as compared with $1,005,401 in 1917.

MILWAUKEE ELECTRIC RAILWAY—Granted Increased Fares—Railroad Commission of Wisconsin has issued order authorizing increase fares to straight 5-cent basis. It has been selling six tickets for 25 cents. Advices as yet as to when the order is to go into effect, the presumption is that the relief will be immediate, or in the very near future. Increase applies only to railway system in Milwaukee, and not to interurban lines of Milwaukee Light, Heat & Traction, an affiliated company. Decision follows investigation for two years, in which commission made exhaustive and searching analysis of company's operations. Value of company's property is placed at $18,000,000. Increase, it is estimated, will add $800,000 annually.

NEW YORK RAILWAYS — Report — Ten months gross was $9,967,978, as compared with $9,389,814 in 1916-7. Surplus after charges was $9,055, as compared with a deficit of $451,531 in corresponding period of 1916-7.

NEW YORK TELEPHONE—Earnings Decrease—Total operating revenues from January 1 were $20,851,477, an increase of $1,237,204. Operating income was $4,876,794, a decrease of $1,152,086.

PHILADELPHIA RAPID TRANSIT—Wage Increase—In anticipation of increased fare for which company is now making application, it has decided to advance pay of all employes on an hourly basis two cents per hour, effective May 16.

PUBLIC SERVICE OF NORTHERN ILLINOIS—Rate Increase—Illinois P. U. Commission has granted permission to increase its rates for power to an extent that will increase revenue by $120,000 annually.

PUBLIC SERVICE RY.—Claims Railway Overcapitalized—Opposing the application of the Public Service Railway Co. for increase in fares, Dr. Willcox, of New York has submitted to the Public Utility Commission data designed to support his contention that the company is overcapitalized. According to Dr. Willcox investigation showed that total capitalization was $153,-749,935 and net capitalization per mile of main trackage $196,171. In report of State Railroad Commission of Massachusetts, he found that company's investment there was $200,987,986, and net capitalization per mile of main trackage, exclusive of the Boston Elevated was approximately $52,000. Including Boston Elevated the capitalization per mile was $69,935.

SOUTHWESTERN BELL TEL.—Net Decreases—Operating revenues for first three months of 1918 was $2,690,076, an increase of $162,930. Operating income was $531,745, a decrease of $47,014.

ST. LOUIS ELECTRIC—Wins Decision—Against Cleveland, Cincinnati, Chicago & St. Louis Railway, Interstate Commerce Commission handing down tentative report establishing joint rates on Illinois Traction systems on all points of New York Central.

UNITED RAILWAYS OF ST. LOUIS—Rate Rehearing Denied—Motion of the City Counsellor of St. Louis for a rehearing of the case in which the Missouri Public Service Commission recently granted to charge a 6-cent fare on lines in St. Louis, for the period of one year beginning June 1, has been over-ruled. The city will appeal in the courts from the decision of the commission. War Finance Corporation approved a direct loan of $3,235,000 to run six months, secured by first mortgage and underlying bonds, plus $800,000 in Liberty bonds. Interest will be 7%.

Sinclair Oil & Refining's Position

A Lesson in Financing—Are Its Current Liabilities Becoming Burdensome Again?—Decreased Earnings in the Face of Huge Additional Investments—New Pipe Lines Opened

By J. H. WESTCOTT, JR.

THERE is one—and only one—class of "sleeping investors" who are to be envied rather than pitied. They are the ones who some fine morning discover that the assets behind their stocks have been carried on the company's balance sheets at extremely modest valuations.

Among such lucky ones were the shareholders of the Milliken Refining, Cudahy Refining and Chanute Refining companies. They had slumbered along dreaming that the assets of their companies were worth approximately $7,000,000. The privilege of arousing them was enjoyed by the Sinclair Oil & Refining Company.

The total assets of these companies, after deducting current liabilities, were valued in their balance sheets of April 30, 1916, at $6,537,864.15. The capital stock issue was $2,119,000 and surplus was $4,418,864.15.

They owned and operated market stations, about 4,000 tank cars and refineries at Coffeyville and Chanute, Kansas, and Cushing and Venita, Oklahoma. One of them also owned a part interest in a small refinery at Muskogee, Oklahoma. The Venite and Coffeyville refineries, of 11,000 barrels daily capacity, were equipped to make nearly all the refined products of petroleum, while the others, of 11,200 barrels daily, made only the lighter oils.

First Financial Phase

The Cudahy Refining Company took over all these assets. It had $1,000,000 of stock outstanding and issued $1,000,000 additional stock on May 1, 1916. It also issued $8,600,000 face value of its 7% 10-year bonds. The valuation of the combined assets was raised to around $14,858,000, which amount was necessary to show a surplus of $4,858,011.

Net profits for sixteen months ended April 30, 1916, were $2,754,667.83, or at the annual rate of $2,066,000.98. It may well be doubted if these earnings, made at a time of abnormal prosperity in the oil industry, could conservatively warrant the valuation of assets above mentioned. These abnormal earnings were only 14% on the new valuation. Earning statements prior to 1915 might be useful for interesting comparisons but, unfortunately, are not available. The Cudahy Company has since changed its name to the Sinclair Refining Company and issued $675,000 more bonds.

But a still greater surprise was in store for the stockholders of the Milliken Oil, Slick Oil, Beaver Oil and the other producing companies, which were taken over by Sinclair Oil & Gas Company, another subsidiary of Sinclair Oil & Refining. Their combined assets on April 30, 1916, after liabilities, were carried in their balance sheets at only $3,519,662.65, against which there was a capital stock issue of $1,045,800, and $2,473,863.26 surplus.

These assets furnished the basis for an issue of the capital stock of the Sinclair Oil & Gas of $10,000,000, a bond issue of $7,000,000 and a surplus of about $14,716,688.84, total $31,716,688.83. This was nine times their valuation on the day before this grand issue. The company has since issued $5,000,000 more bonds. The Sinclair Oil & Refining was the only stockholder of these subsidiaries.

The earnings of these oil producing companies for the sixteen months ended April 30, 1916, *before providing for depreciation and depletion,* were $3,057,226.27, at the

annual rate of $2,292,919, about 7% of the next day valuation. The average daily production was 13,000 barrels of oil. Based upon an asset valuation equal to $1,200 per barrel of daily production—a high one—the purchase price would have been $15,600,000.

Capitalization, Market Action and Second Phase

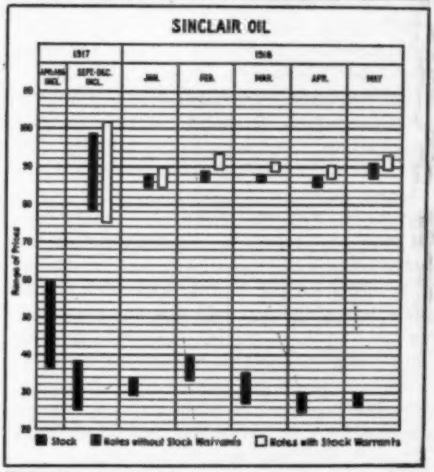
The original authorized capital stock of the Sinclair Oil & Refining was 1,000,000 shares of no par value. It is now 1,500,000 shares. There were 696,971 shares issued on May 1, 1916. Trustees held the remainder for the conversion of the company's bonds amounting to $20,000,000. These bonds stood in the way of the company's ambitious program of expansion. The stock was brought out on the New York Curb around 45 and went up to 50. It then reacted to 38, where it hung for some time. But bonds convertible at 55 would remain in the hands of their holders until due, if the stock remained at 38.

The declaration of a quarterly dividend of $1.25 a share within two months after the company began business made the shares look attractive. Aided by favorable reports, and another dividend declaration, the stock went up to 63¾ and bondholders began to take notice. It was then introduced on the New York Stock Exchange at 55 and ran up to 59¾. The conversion privilege apparently became valuable and was exercised by the holders of over $18,000,000 of bonds. The stock then went down rapidly until in December, 1917, its low price was 25¼.

Third Phase

Up to June 30, 1917, the Sinclair Company had accumulated $13,899,157 of notes and accounts payable. The net income for the year was $4,493,534. Instead of using these earnings in carrying out its plans or paying some of its outstanding obligations, dividends of $4,888,211 were disbursed. The surplus was only $605.322. It may well be doubted if these dividend payments were conservative. But they were continued to the second quarter of this year in the face of decreasing earnings and were then passed.

The unfortunate position in which the company found itself in July, 1917, as to liabilities resulted in the issue of $20,000,000 of its first lien sinking fund 7% gold notes, due on August 1, 1920. The sinking fund requirements are $500,000 on May 1 and on November 1, 1918, and $750,000 on May 1 and November 1, 1919. The notes were accompanied by negotiable stock option warrants, entitling holders to purchase stock on or before February 1, 1920, at the rate of 25 shares for each $1,000 of notes at $45 a share, if made on or before August 1, 1918; then at $47.50 a share on or before August 1, 1919; and at $50 a share on or before August 1, 1920. These notes were underwritten and offered to stockholders at par. But some had evidently become discouraged by the market action of



the stock or believed that the reports were too hopeful and only $10,250,000 were subscribed.

This left $9,750,000 in the hands of the syndicate. They were offered at 102½ and interest, but from a market price of 102 with warrants, they rapidly declined to 77. They have since gone up to 92⅜. The warrants seem to have value, in the opinion of purchasers or holders, as notes without warrants are being sold at 90½. The purchase of stock by all holders of warrants would result in an issue of 500,000 shares. This has had a depressing influence on the market. It will require $7,500,000 to pay $5 yearly dividends on the total authorized stock.

Earnings

Earnings for the year ended June 30, 1917, were evidently a great disappointment.

to both officers and stockholders. It was reported shortly after the company was six months old that the surplus for the first six months was $3,177,487, after payment of approximately $1,500,000 in dividends; that it would close its fiscal year with a surplus of $5,000,000 after making allowances for all charges, depreciations and dividends of about $4,300,000. It was also reported in March, 1917, that monthly earnings were running at a rate to sustain the hopes and expectations of its friends; and it was understood that in January net was probably better than $1,250,000 and February would be proportionately larger; that if continued for a full twelve months, this would mean a balance of net profits of $15,000,000 for the year or at the rate of $15 a share.

But the net income available for dividends for that year was only $4,493,534. However, this did not take into consideration the $3,211,983 surplus of its subsidiary companies for the year.

Net earnings since June 30, 1917, of both the company and its subsidiaries have shown a considerable decline. They decreased from $2,093,892.73 during the September, 1917, quarter to $1,003,115.15 for the December one and $561,268.03 for that of March 31, 1918. Net for the nine months was $3,658,275.91, or at the annual rate of $4,811,034.56. During these three quarters dividends amounting to $3,750,000 were paid, or $91,724 more than its net earnings.

The seriousness of these decreasing earnings can be better understood when it is realized that the company had spent approximately $11,537,508 in addition to the plant and property investment of the oil producing company, $6,693,894, to that of its refining subsidiary and $5,872,519 for its Pipe Line Company in the fiscal year 1917. The oil production had increased 3,000 barrels daily over May, 1916, and the capacity of the refining plants had become 27,000 barrels daily.

But the company had not fully benefited from the new refineries under construction in East Chicago, Kansas City and other points, which will have a daily capacity of 20,000 barrels, according to estimates. Its pipe line in Chicago was not in operation until two months ago. Substantial additional earnings should be made from it and from the refineries when completed.

What Will Be the Fourth Phase?

The quarterly reports indicate that the current liabilities have increased to a considerable extent, although approximately $5,000,000 cash remained from the proceeds of the sale of its $20,000,000 notes in August, 1917, after the payment of its payables. The quarterly interest charges on the 7% notes and other funded obligations amounted to approximately $384,000. For the quarter ended September 30, 1917, the interest and discount deductions from earnings were $337,858.67, due to the fact that its notes were not issued until August 1. These interest and discount charges increased to $486,557.83 for the December 31 quarter and to $541,597 in the March 31 quarter. It has been understood that the company had to pay a substantial discount on its $20,000,000 notes. The excess of $100,000 of interest and discount charges for the December quarter over normal interest requirements was probably one-twelfth of the total discount. It would then appear that the additional interest charge of $57,597 for the March quarter was interest on current liabilities, in the absence of definite information. Based upon a 7% interest rate, this seems to indicate that current liabilities drawing interest on March 31, 1918, were over $3,000,000.

Conclusion

The company's 7% notes are a direct obligation and secured by a pledge of the stock and bonds of its subsidiaries. This makes them practically a first lien on properties possessing considerable value. But the company is an unseasoned one and has had considerable trouble in financing its obligations. These notes are a speculative investment.

While the analysis of earnings does not appear to warrant purchasing the stock at present, its market action, nevertheless, indicates that there are those who are willing to take what is offered at present prices and it may be that more favorable developments are pending.

International Nickel—Is It Cheap?

A Manufacturing Proposition with Unlimited Raw Materials —Its Regulation of the Price for Nickel— Position of Stocks

By LAURENCE SMITH

WE now have International Nickel figures for the fiscal year ended March 13, 1918. Earnings after preferred dividends were $5.78 a share for the common, as compared with $7.78 the preceding year, and $6.70 in 1916. The par of the common issue since 1916 has been $25, and dividends are now at the rate of $4 a year, reduced from $6 a year on December 1, 1917.

The present price of the junior stock issue is around 27, as compared with a high for 1916 of 56 13/16, a low for 1917 of 24½ reached in the middle of last December, and a low of 24½ recorded on May 13 of this year. The stock looks cheap. It figures to yield about the same as United States Steel common at present prices, but the natural inference would be that the stock of a great established industry like the Steel corporation ought to sell materially higher in proportion than the securities of a mining company.

A Manufacturing Proposition

However, it is quite usual to make distinctions between mining propositions. Investors say, "Of course, a mine like Utah Copper is different. Utah has a whole mountain of ore reserves, so that getting out the product is simply a manufacturing undertaking. Results for Utah are simply a matter of price for the metal and the cost of production." Even after much publicity on the subject few people realize that International Nickel is also simply a manufacturing proposition, with raw materials of apparently unlimited extent.

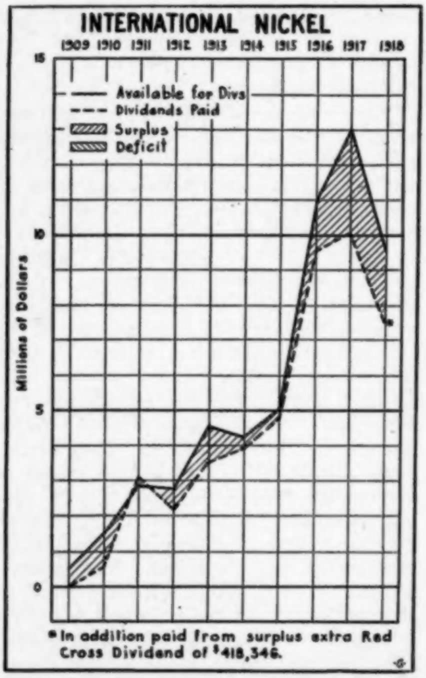
The company officially reported to the New York Stock Exchange in 1915: "From the working of the past thirteen years and the expenditure of $500,000 during the two years ended March 31 last for diamond drilling and development, large bodies of paying ore have been developed, estimated at 57,000,000 tons, sufficient for the requirements of the company at the present rate of consumption for more than fifty years." The company keeps its accounts on an amortization basis and not as a liquidating concern, and charges against earnings for each ton of ore smelted, in order that the capital values be amortized at the extinction of the ore bodies.

Of course, in the last three years the company has been taking out a much larger quantity of ore than formerly, but the amount of ore counted as reserve will probably prove to be only a part of that which will be found available as soon as any reasonable cause appears for the expenditure of further funds in exploration. Besides, the company has several thousand acres of nickel bearing land in Canada, which has not been considered at all in the above estimate, but much of this land is known to contain ore bodies of commercial values. The company has also important properties in New Caledonia which, on account of the greater profit in handling nearby ore, have not been fully developed.

The Ontario ores are remarkably free from rock, and no system of concentration is necessary before smelting. They are almost entirely self-fluxing. As a matter of fact the ore runs up to 3 per cent. in copper, as well as up to 4 per cent. in nickel, and the company is really an important producer of the red metal. The smelters are located at Copper Cliff, Ontario, about eight miles east of the principal mine, the Creighton. An enormous plant at Copper Cliff contains blast furnaces, basic converters, and a large reverberatory plant. Practically all the property in Copper Cliff, a town of over 5,000 inhabitants, is owned by International Nickel, and the town is connected by twenty miles of track with outside railroads, including the Canadian Pacific. The connecting trackage and also a 12,000 h.p. hydro-electric development, supplying the mines and smelters, are owned by the International.

When the product of the smelters leaves

Copper Cliff it is in the form of a matte, containing 80 per cent. metal, of which about 55 per cent. is nickel and 25 per cent. copper. All of this matte has been shipped by rail to Bayonne, New Jersey, for refining. At the beginning of the war, the European Allied Powers found themselves dependent upon another, though friendly country, for the refined nickel. A desire for independence, as well as a pardonable feeling that Canada on general principles ought to refine its raw nickel, led to plans for a new refinery on the Welland Canal. Up to March 31 last the refinery had already cost over $5,000,000. This plant,



commenced late in 1916, will be completed this summer or early this fall, and will add about one-third to the total capacity for producing copper and nickel.

The price of nickel has been kept to a scientific "monopoly price." That is, having practical control of supplies, the company has diligently fostered the use of nickel by asking a consistently reasonable price. In June, 1914, nickel was selling for 40 to 43 cents a pound, depending upon grade. Today it is 38 to 40 cents, with every conceivable reason existing for a drastic increase in this very important commodity.

Automobile and truck manufacturers have found nickel alloys invaluable. Nickel is used largely in bridge and structural materials and in the best steel rails. Of course, during war times an insatiable demand exists for nickel for munition and other war work, armour plate for example comprising 3 to 4 per cent. in nickel.

The International company has enjoyed a constantly increasing market for a natural alloy of nickel and copper, known as Monel Metal. This material has satisfactory tensile strength as well as ductility. It is especially useful where a metal is needed requiring especial resistance against exposure. The roofs of the Pennsylvania passenger terminal in New York and the Chicago & Northwestern passenger terminal in Chicago are composed of Monel. Monel is widely used in the most exposed parts of our fast building merchant and naval marine.

Prospects for Next Year

So much for the company's properties and its products. In spite of a constant policy of expansion and of improving methods of production, the International Nickel treasury remains in splendid condition. After the expenditure in 1918 of $5,314,091 for the Canadian refinery and $1,170,063 on new construction and improvements on other plants, the company showed net working capital, including instantly salable inventories of $10,008,370, as compared with $12,063,585, the decrease being more than accounted for by the great increase in the item of taxes payable. The company has had no long time liabilities since April 1, 1913, when over $8,000,000 of bonds were retired as a part of recapitalization measures adopted involving also an increase in the capital stock through the issuance of two and one-half shares of new for one of old.

Of course, International's great problem is that confronting many a corporation, taxation. Canadian corporation taxes have been much less than in the United States. If we add a third to the net profits

available the year ended March 31 for the common stock to allow for the added production of the new Canadian refinery, the sum would be $12,793,645 for the fiscal year 1919, presupposing of course exactly the same conditions that obtained last year. However, the new refinery isn't apt to be producing to capacity for some time, so perhaps one-sixth added to 1918 results would be more fair. If Canadian taxes remain proportionately less than in the United States, the addition of one-sixth to gross business resulting from Canadian refining would net much more than one-sixth to net earnings, but we'll be conservative. Earnings for 1918 plus one-sixth would be $11,191,439. This would be $3,661,211 more than is required for present dividends on the common issue, and show an estimate of the margin available for increased taxes in this country, and increased costs of labor and material. With Federal and State taxes the last fiscal year of $3,590,836 it would appear that the company could reasonably expect to meet the conditions brought by the 1919 fiscal year without reducing dividends from the rate of $4 a share.

Every pound of nickel produced is controlled by voluntary effective co-operation with the Canadian and United States governments. Considering the reasonable prices charged at all times for nickel, it would seem probable that the authorities would be inclined to listen to a plea for higher prices if the present rate of common dividend becomes endangered by taxes or increased costs, but only time will tell in regard to this.

Yet it must be remembered that while the International Nickel management has taken a liberal view toward dividends, the rate declared has had little stability. In no two years since common stock dividends were begun in 1910 has the rate been the same.

Purchasers at present prices are buying at low prices. I believe that purchases made now, added to by more shares taken later on on any possible material declines should prove reasonably profitable. The end of the war will end the abnormal requirements for nickel, but the needs for nickel in times of peace will, from all indications, keep the International's production in demand.

Little attention has been paid above to the preferred stock. Only $8,912,000 is outstanding, and in the last three years net earnings have run over 100 per cent. on this issue, and over 50 per cent. since 1913. It is a 6 per cent. stock and sells so high that it is not particularly attractive even as a high-grade investment.

INTERNATIONAL NICKEL

Income Accounts, Years Ended March 31

	1918	1917	1916
Earnings	*$15,791,485	$16,728,913	$14,091,612
Other income	390,016	250,695	249,354
Gross income	16,181,501	16,979,608	14,340,966
Expenses, taxes, etc.	†4,200,860	1,430,371	870,860
Depreciation, etc.	‡1,850,653	1,991,267	1,721,827
Net earnings	10,129,988	13,557,970	11,748,278
Preferred dividends	534,756	534,756	534,756
Common dividends	§7,530,228	10,040,304	9,431,803
Balance for year	2,065,004	2,982,910	1,781,719

*After maintenance and foreign taxes. Decrease for 1918 attributed to increased cost of labor and materials.

† Includes $3,590,836 Federal and State taxes.

‡ Includes regular allowance for depreciation $984,000, and $855,515 for exhaustion of minerals.

§ The company paid also a Red Cross dividend of $418,346, on the common stock, charged to surplus.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

ALASKA GOLD—May Output—Reports show May production 101,200 dry tons milled, showing 1,114 and 81.24, dollars extraction; also 20.9 per cent tails.

AMERICAN SMELTING — Capacity Production—Every available unit of smelting facilities is in operation in this country and good progress has been made in opening up its Mexican plants. All but one have resumed. Proposal of Mexican government to double amount of gold to be shipped back from silver bullion has been eliminated by reason of complete change of front of Mexican officials who will let original agreement stand. New sulphuric acid plant, built at cost approximating $1,000,000 has been put in operation with yield of 150 tons daily. Capacity can be increased as desired.

AMERICAN SMELTERS SECURITIES —Stock Called—Of $9,867,500 preferred stock, Series "A", recently outstanding, $214,700, including $85,000 held by American Smelting & Refining Co. has been drawn for payment at par on July 1 at U. S. Mortgage & Trust Co., N. Y.

ARIZONA-COMMERCIAL — Copper Production in April—525,000 pounds of copper were produced. During four months' strike in 1917 all development work was suspended. Operations were resumed last fall. Arizona has in sight 62,000,000 pounds of extractable copper.

CHINO COPPER—Dividend Reduced—On June 6. 1918, regular quarterly dividend at $1 per share was declared, payable June 29, to holders of record June 14. Previous quarterly dividends declared at $1.50.

COPPER RANGE CO.—Report—During 1917, 978,015 tons of rock was stamped and 31,268,130 lbs. of refined copper produced, which represents 31.97 pounds of copper per ton of ore stamped. Total cost per pound of copper produced was 12.58c. and average price received was 28.735c. Total expenses amounted to $3,933,222.05, net earnings were $4,966,824.97, and total dividends paid were $3,943,912.50. Report covers operations of following companies, stock in which is held by Copper Range: Atlantic Mining, 97,001 shares; Trimountain Mining, 99,690; Champion Copper, 50,000; and Copper Range R. R., 42,443 shares. During 1917 Baltic Mining was dissolved and assets transferred to the Copper Range.

DOMES MINES — Report — For eight months during which mill was running: Tons ore milled 247,000; total earnings, $1,030,758; total operating costs, $686,180; net operating earnings, $344,578; non-operating revenue, $10,445; net profits, $355,023. Results for four months during which development work only was carried were: Total operating costs, $126,672; net operating revenue, $8,108; deficit, $118,564; net profit for fiscal year, $236,459; appropriation for plant depreciation, $282,328; deficit, $45,869. During year total of 258,917 tons was mined and hoisted; 247,000 tons was sent to mill and treated, and 11,917 tons was waste. In addition 101,352 tons were mined and remained in shrinkage stopes. Ore treated in plant yielded bullion worth $1,030,758, average yield per ton being $4,173. Known ore reserves are estimated at 1,905,000 tons, valued at $5.10 a ton, making total of $9,945,000.

EMPIRE MINES—Building Electric Railway—From Pennsylvania mine to Empire mill. Upon its completion, it will treat all Pennsylvania ore at its main plant, which will be enlarged. Empire mill at present contains sixty heavy stamps and is crushing 9,000 tons of ore monthly. Reserves of profitable ore have been substantially increased by long crosscut recently extended from 2800-foot level of Empire shaft, and several years of certain production added to life of enterprise.

FEDERAL MNG. & SMELTING—April Earnings Show Decrease—Net profit from operations in April after depreciation, was $32,398, compared with net profits of $64,840 in March and loss of $33,393 in February. Company is experiencing considerable difficulty in securing sufficient amount of labor. Company's principal source of production, made necessary by cave-in about middle of February, have been completed, and shaft is again in operation.

GREAT FINGALL CONSOLIDATED —Closed Down—Mine, at Day Dawn, three miles from Cue, Western Australia, is being closed down after operating since 1892. Output of ore aggregated about 2,000,000 tons for return of £4,919,466, of which £1,250,000 has been paid in dividends. Treatment plant consisted of 100 stamp mills, slime plant, etc. Capital was £125,000. Operations recently have been conducted at loss.

GREENE CANANEA—May Output—Produced 4,100,000 lbs. of copper, compared with 4,100,000 lbs. in April. Mines were shut down from July to the middle of December of last year. Production of silver in May totaled 127,260 ozs. and output of gold was 1,340 ozs. In April 121,670 ozs. of silver, and 1,270 ozs. of gold was produced. Sales of copper in 1917 were $8,245,694. Surplus income for year was $2,497,888, equal to $4.99 a share. Dividends were $3,954,215. Deficit $1,456,327.

HOWE SOUND—1917 Profits of $818,000—Five-year voting trust, terminating in January, 1923, has been formulated for stock

of Howe Sound. Of 1,984,150 shares outstanding, 1,533,200 have been deposited with Bankers' Trust. Company controls Britania copper mine of British Columbia and silver-lead property in Mexico, and made $818,626 in 1917, equal to 40 cents share on outstanding stock. At end of year ore reserves were 7,426,000 tons, averaging 1.98 per cent copper, compared with 18,754,502 tons averaging 1.97 per cent copper in 1916. During past year bonded indebtedness was reduced by $269,000 to $4,842,000.

ISLAND CREEK COAL—Earning $20 A Share—Earnings have increased to rate of better than $20 share; last year company earned $16 per share on its common shares.

ISLE ROYALE—Pays an Extra Dividend—May Production 1,250,000 Pounds—Dividend declared last week as "extra of 50 cents per share." Reports indicate that last five days of May will pull production for month up to 1,250,000 pounds of copper. Recent wage awards have added nearly cent to per-pound costs of copper, making 16½ cents, excluding taxes and depletion. Based on this price, there remains profit of seven cents per pound on 5,716,000 pounds of copper produced up to June 1, or $400,012, equivalent to $2.60 per share.

JIM BUTLER TONOPAH—Fails to Recover Damages—It was unsuccessful in recovering damages from the West End Consolidated Mining Co. for ore extracted beneath the Eureka and Curtis lodes in Nevada when the Supreme Court of the United States approved an injunction granted by the Supreme Court of Nevada preventing the continuance of such illegal practice.

KENNECOTT—May Output—Production of copper amounted to 10,162,000 pounds, of which 3,404,000 pounds were from Alaska and 6,758,000 from South America, compared with 10,516,000 pounds in April, of which 5,794,000 pounds were from Alaska and 4,772,000 pounds from South America. Decreased production from Alaska was due to snow slides at Kennecott in first part of month which carried away portions of aerial tramways connecting mines with mill. Repairs on the tramways have been completed and mines are again in operation.

MINERALS SEPARATION—To Appeal Butte-Superior Decision—Company has dedecided to take to United States Supreme Court an appeal from decision of Circuit Court of Appeals in its suit against Butte & Superior. In the meantime Butte & Superior will continue to pay its earnings to District Court at Butte and refrain from distributing dividends to stockholders. Under amended decree Butte may, without infringement, use oil in the proportion of more than ½ of 1 per cent to ton of ore or anything in excess of ten pounds. Prior to the latest ruling it infringed in use of 1 per cent or less of oil.

NEVADA CONSOL—Dividend Reduced—Declared regular dividend of 75 cents payable June 29, to stock of record June 14, compared with $1 declared in previous quarter.

PHILADELPHIA & READING COAL & IRON—April: Receipts, 1918, $4,244,243; 1917, $3,328,060. Expenses, 1918, $4,016,114; 1917, $3,096,373. Profit and oper., 1918, $228,129; 1917, $231,687. Interest and tax (est.), 1918, $20,000; 1917, $12,500. Surplus, 1918, $208,129; 1917, $219,187. From January 1: Receipts for first four months of 1918 were $16,868,431, as compared with $14,581,529 in same period of 1917. Surplus was only $713,158, as compared with $1,525,897 in 1917.

POND CREEK COAL—Record Production in April—New production records have been made during the past few months. In April output exceeded 100,000 tons and final figures will probably show that May surpassed the previous month in operating results. Last year Pond Creek production approximated 1,038,000 tons comparing with 942,900 tons in 1916.

RADIO MINES—To Start Operations Soon—Following months of preparation, company is about ready to begin operations on their radium mines in San Bernardino county. Delay in working property was caused by investigations as to best method of recovering all other values of ores, especially such metals as will be used by government in prosecution of war.

RAY CONSOLIDATED—Dividend Reduced—Regular dividend of 75 cents payable June 29, to stock of record June 14 has been declared. This compares with $1 declared in previous quarter.

TENNESSEE COPPER—Acid Output Slowing Down—Pace of 1,000 tons of acid daily during March will not in all probability, be maintained throughout summer months on account of summer heat. Every ton of acid goes to International Agricultural Corporation under terms of contract which does not expire until 1923.

UTAH—New Leaching Plant—At Garfield is reported to be treating upward of 1,500 tons of carbonate ores daily, and producing precipitates carrying from 65 to 70 per cent. copper. It has 12 tanks of capacity of 4,000 tons each, and when operations are fully under way, amount of material handled daily will be about 4,000 tons. Preliminary estimates of production in April are 1,000,000 pounds in excess of March output, which amounted to 16,179,831 pounds copper.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

CALIFORNIA PETROLEUM—Increased Earnings—They are running at rate double that of year ago. In first three months of 1918, company earned $623,821 net on the preferred, equal to $5 share, at annual rate of $20 a share. In 1917 California earned $1,278,496 net on the preferred, equal to $10 share as compared with $6.70 in 1916. Acreage in new Montebello oil field is being developed by Red Star Petroleum, a subsidiary. Main trouble with California has been its small production.

COSDEN—May Results—Shipments of refined products in May, aggregated $2,250,000, and exceeding April shipments by $250,000. It is operating plants at full capacity, and shipments of refined products are above normal. Production of crude oil is holding up well.

FEDERAL—Earning $360,000 a Year—After deduction of $24,000 for preferred, equal to 46c on common. Deliveries by company to Cumberland Pipe Line are now running at 500 barrels a day, which brings an income of $1,000.

GALENA-SIGNAL — Stock Offering—$4,000,000 8% new preferred stock, at par, will be offered to all shareholders of record June 29, in proportion of one share for every five shares held. Present capitalization consists of $20,000,000, comprising $2,000,000 8% old preferred, $2,000,000 8% new preferred, and $16,000,000 common stock.

HOMA OIL — Developments—Management reports that on well No. 5 of Newton lease 31-hour run made 405 barrels. Work on well No. 6 indicates that oil will probably be struck within few days. Operations on well No. 7 have been started. Now has 55 producing wells in operation, having recently taken over 160 acres adjoining Newton lease.

HOUSTON—Timber Certificates Called—Two hundred and forty-five New Series Timber Certificates under Kirby Lumber Contract, dated Aug. 1, 1911, have been called for payment at office of trustee, Maryland Trust Co., Baltimore, or Chase National Bank, New York, as of Aug. 1, 1918, at par and interest.

ISLAND—Operations—Company's 8-inch pipe line, running from the Tepetate district to sea-loading station at Palo Blanco, near Tuxpam, Mexico, was placed in operation on May 28. About 17,000 barrels are being pumped daily from Libertad well No. 3, through line which is 18½ miles long and has maximum daily capacity of 30,000 barrels. It has contract with Atlantic Refining for delivery of more than 6,000,000 barrels of oil in 1918. The latter company's tanker, the "Donnell," is now taking initial load from line. Company has paid $100,000 each for three whaleback barges. They have capacity of 16,000 barrels each. Two tugs have been purchased to tow barges across Gulf for delivery in United States. Three 55,000-barrel storage tanks have been erected.

NATIONAL—Increases Capital—Amendment to certificate of incorporation has been filed, increasing capital stock from $2,550,000 to $25,500,000, par value of $10 each.

OKLAHOMA PRODUCING & REFINING—Developments and Operations—Inasmuch as producing end is most profitable at this time company is giving this branch more attention. In its refinery only a small portion of its production is treated. Approximate daily average production of crude oil is 7,500 barrels a day. Of this amount, 2,500 barrels are being refined, and rest sold to other refining companies.

ROYAL DUTCH—Under British Control—Is believed to foreshadow further important developments. For several months past buying for British account has been going on. American certificates purchased in this market are understood to have been withdrawn from this country. Royal Dutch certificates may disappear from this market. It is thought that they will be replaced by Shell Transport Co. shares. It is the tank steamer company transporting the production of Royal Dutch.

STANDARD OIL OF INDIANA—Taxes Amount to $18,000,000—Notification that its income and excess profits taxes for 1917 will be $18,000,000 has been received. This amounts to 40% of net earnings. After deducting taxes the company has left approximately $25,000,000 or 80% on stock. The company in its annual report had estimated Federal taxes at $17,000,000.

STANDARD OIL OF NEW YORK—Denies Trade Charges—In answer to charges of Federal Trade Commission that company was guilty of violating Clayton act by acquiring controlling shares of Magnolia Petroleum attorneys for company denied that company was guilty of violating law, as shares owned numbered only 198,000 out of 440,000 and did not have voting control and was purely an investment. Attorneys for commission contended however, that such shares were sufficient to dictate policy of company and should be construed not only to mean that an attempt was made to lessen competition but to create monopoly.

UNION OIL OF CAL.—Bonds Listed—New York Stock Exchange had admitted to list $9,001,000 first lien 5% 20-year sinking fund bonds, Series "A" of company.

UNLISTED SECURITIES

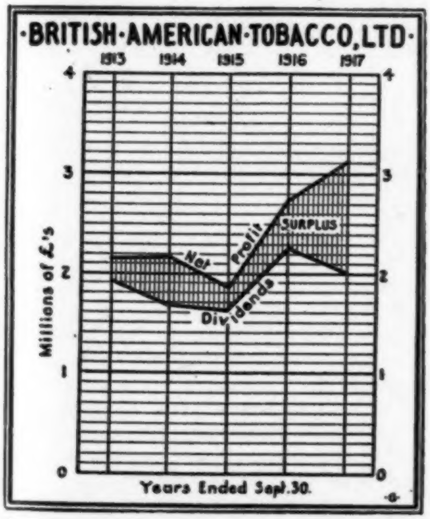
British-American Tobacco as a War Stock

Its Great Increase in Earnings—Strong Financial Status and Position of Securities

By JAMES SPEED

THE British-American Tobacco Co., Ltd., is a worthy offspring of the J. B. Duke brain. All except the youngest of our readers will remember that this company was originally one of the shock-divisions of the old American Tobacco and was organized in September of 1902 to combat the Imperial Tobacco Co. of Great Britain, i. e., the British tobacco trust.

In the beginnings it was a case of trust meet trust with the usual ending-compromise. The Britishers found that American brains backed by millions were equal to the best that Great Britain could produce and finally decided that the world could be better enjoyed by all parties by distribution than by contest. Accordingly a peace conference was called and around the council table the tobacco kings divided up the tobacco world.



The peace terms were to the effect that the American Tobacco Co. should rule supreme in the United States, while the Imperial Tobacco Co. held sway in the British Isles and Canada, and the British-American Tobacco Co. held full sway over the rest of the world.

The fact that towards the end of 1917 the British-American Co. was making 150,000,000 cigarettes daily and selling 400,000,000 a month to France gives but a slight idea of the volume of the company's operations. That output was at the staggering rate of 52 billions of cigarettes annually compared with an estimated 1917 entire output for the United States of approximately 36 billions.

Capitalization and Earnings

At about that time Mr. James B. Duke, the guiding genius of the American Tobacco Co., decided to devote his attention to the British-American Tobacco Co. and its world-wide dreams of conquest. He went at the task with characteristic Duke energy and success as indicated by the graph which accompanies this article. The manner in which profits have grown is shown in the following tabulation:

	Net Profit
1905	£711,483
1906	751,781
1907	1,031,325
1908	1,062,729
1909	930,647
1910	1,358,384
1911	1,655,880
1912	1,981,159
1913	2,151,836
1914	2,177,022
1915	1,850,059
1916	2,733,361
1917	3,105,002

From the foregoing it appears that the company has not failed to have its reactionary years, but that the line of increase has been on the whole fairly constant. The tabulation also shows that the generally conceived theory that tobacco stocks as a

class are "peace" securities does not apply to this company, for net profits last year were by far the largest in the history of the company. The change in the habits of the smoking public accounts for this. With the tremendous popularity which the cigarette has attained in the last double decade has come the viewpoint that tobacco is as much of a necesity as a luxury. Anything that tends to relieve the mental strain of warfare has a psychological value as great to the mind as food has a value to the body. Hence the care which the various Governments take to keep their soldiers supplied with tobacco.

Earnings

British-American has 4,500,000 shares of 5 per cent. cumulative preferred stock authorized and outstanding, par £1, or a total of $22,500,000 par value in American monetary terms, and £10,000,000 common authorized ($50,000,000), par £1 ($5), of which £6,254,320 ($31,271,600) is outstanding.

The company has no funded debt.

British-American has been a large earner and a large payer of dividends. The preferred stock is cumulative and has paid its 5 per cent. annually and uninterruptedly since 1905. The very large margin of safety of the senior issue is shown in the following tabulation, which gives the amount earned on preferred as compared with the annual rate for the last six years.

Fiscal Years	Earned on Pfd.	Paid on Pfd.	Times Earned
1912	94.3%	5%	19
1913	69.4	"	14
1914	48.3	"	9
1915	41.1	"	8
1916	60.7	"	12
1917	69.0	"	14

Common or "ordinary" dividends have been paid in recent years as follows: 1905, 12 per cent.; 1906, 14 per cent.; 1907-8, 23 per cent.; 1909, 19½ per cent.; 1910, 31 per cent.; 1911, 37½ per cent. Earnings and disbursements on the common stock for the last six years have been as follows:

	Earned on Com.	Paid on Com.
1912	30.0%	26½%
1913	32.5	27½
1914	31.8	24½
1915	25.9	22½
1916	40.1	30
1917	46.0	29

In the last six years the company's common stockholders have received the equivalent of 140 per cent. on the par of their holdings.

Financial Position

British-American Tobacco is a well managed company and occupies a strong financial position. During the first year of the war the company set up a reserve of $7,500,000 against emergencies, but as yet it has not been found necessary to draw this fund. Such a reserve keeps the profit and loss surplus to approximately $15,000,000 instead of allowing it to show upwards of $22,000,000, where it otherwise would have been.

The company has taken advantage of its large war earnings to strengthen its working capital position. At the time of its last report, September 30, 1917, the company had cash in hand of approximately $8,500,000 and about $13,500,000 owing by its creditors.

Net working capital as of September 30 last totaled approximately $45,000,000 as compared with $37,500,000 a year previous and $34,000,000 in 1915.

Position of Securities

Our analysis has shown that the British-American Tobacco Co. is a well managed corporation, doing a record business in a well established field and occupying an unusually strong financial position.

So inactive is the preferred stock of the company that it has practically no market. Inquiry developed that the last sale took place about three years ago at £3¾, so that it will be seen that this issue will not appeal to the average investor.

The common stock enjoys a better market and at this writing is selling at about 15½. At this price it yields approximately 10 per cent. The movement of the common stock is confined to narrow limits so that it does not offer much speculatively, for a short pull. The buyer must also be an investor, i. e., one willing to be satisfied with a good return on his money while holding the stock for the better prices which the steady progress of the company would seem to warrant over a period of time.

Remington Making Progress

Earnings Are Good, Bonds Are Being Retired, but Company Is Burdened with Heavy Capitalization

By ERNEST P. WILLIAMS

IN the December 22, 1917, issue of this publication I expressed a generally favorable view of this company's securities. Results since then have justified that opinion and prices of the three classes of stock have advanced five to fifteen points. On the other hand, there appears to be no early prospect of resumption of dividends, as the company has $550,000 bonds to pay off yearly, war conditions make the earnings uncertain, and the directors desire to put the company in a stronger position financially before paying out money in dividends.

The present Remington Company is the outgrowth of the old Union Typewriter Co., which used to be called the typewriter trust. It owns the majority of the capital stocks of the Smith-Premier, Yost, American Writing Machine, Monarch and Densmore companies. All these machines are obsolete or obsolescent and present business is nearly confined to the Remington machine, which was the first successful typewriter and has considerable prestige.

A Burden from the Past

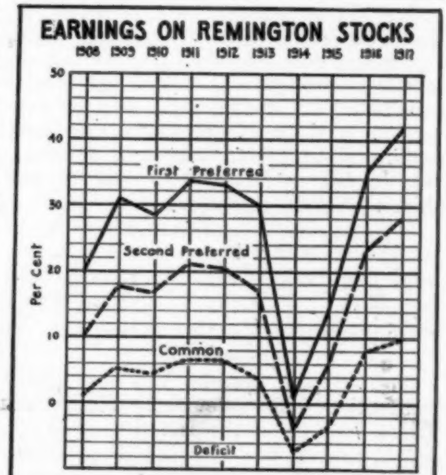
These semi-defunct machines have left a heritage to the present Remington Co. in the form of an item of $13,076,000 among its assets for "good will, patents, etc." Most of the patents have run out or are of little or no value at present. The Wahl Adding Machine patent, owned by this company, has value and the name Remington is properly entitled to a good-will valuation, but as the item stands in the balance sheet it is badly swollen, and it represents over 40 per cent. of the company's total assets of $31,610,000.

To offset these assets a somewhat inflated capitalization is necessary, as follows:

1st. mort. conv. 6% bonds	**$4,400,000**
1st. pref. stock, 7% cum	**3,988,000**
2d pref. stock, 8% cum	**4,994,000**
Common stock	**9,996,000**

The property account, however, is undervalued at $3,582,000. This was shown by appraisal a few years ago, and the principal plant, at Ilion, N. Y., is now being enlarged out of earnings, so that the undervaluation is still greater at present.

In 1910 the company began the issue of short term notes to offset the growth of its accounts receivable, and by 1914 these notes had reached a total of $4,400,000. In January, 1916, they were paid off. The necessary money was obtained by the sale of $5,500,000 of 6 per cent. bonds, maturing at the rate of $550,000 yearly for ten years. Two instalments of these have now been paid off out of the good earnings of the last two years.



Why Earnings Have Risen

As shown on the graph herewith, the company's earnings have had a phenomenal rise since 1914. The company did a big foreign business before the war, so that the outbreak of hostilities dealt it a severe blow. Nothing was earned for any of its three stock issues that year.

Moreover, down to about 1914 the efficiency of the business was greatly interfered with by the multiplicity of models being made. Since then the policy of concentrating on a few models has borne good

fruit in earnings. The company also got the benefit of the great wave of prosperity which swept over this country in 1916 and 1917.

Its foreign business is almost at standstill, due not only to actual interference with demand in Europe, but also to the difficulties of doing foreign business even in neutral countries under present conditions of extreme scarcity of shipping. But the gain in its domestic business has been sufficient to more than make up for the loss abroad. The 1917 earnings were even better than had been estimated. In 1918 the company's taxes will necessarily be heavier, but there is no let-up in its business and it should show very satisfactory results at the end of the year.

There can be no question as to the company's wisdom in planning to pay off its bonds and build up its assets, so as to put greater value behind the three kinds of stock. Down to 1915 the common stock represented little more than a rosy vision of increased earnings some time in the indefinite future. A dividend of 1 per cent. was paid on it in 1913, otherwise it had paid nothing since 1907. The 1913 dividend was in fact unwarranted in view of the short term notes outstanding.

More conservative policies are now being put in force, and with the retirement of the bonds and the upbuilding of assets the common stock is beginning to represent something besides water.

Competition

This company operates in a field where competition will undoubtedly always be active, in spite of the fact that so many typewriters of various makes have fallen by the wayside in recent years. Its principal competitor is the Underwood, and the progress of the net earnings of the two companies is shown in the table herewith:

Remington and Underwood Net Earnings

	Remington	Underwood
1912	$1,765,475	$1,903,506
1913	1,751,987	1,803,078
1914	576,416	841,434
1915	1,127,667	1,464,787
1916	2,015,946	2,548,671
1917	2,256,134	3,162,226

These two companies have been getting most of the increase in the country's typewriter business, and so far the Underwood has been successful in getting rather more than its share. It is to be remembered, however, that the Underwood Co. has had but a single machine throughout, while the Remington Co. has had to wean customers gradually away from the other models formerly manufactured. The companies are now fighting on fairly even terms, each machine having its admirers.

Outlook for Securities

Remington 6 per cent. bonds are to be rated as high grade. They are redeemable at 102½ and are convertible into first preferred stock at par, which will then be redeemable at 110.

The first preferred stock, after earning an average of nearly 39 per cent. annually for two years, would ordinarily be considered a likely candidate for resumption of dividends. Dividends on both the preferred issues were discontinued in 1914, but before that had been paid regularly from 1896. But in view of the conservatism of the management and the prospect of heavy war taxation, it is a fair guess that regular dividends may be delayed until the war is over or until the end of it can be reasonably foreseen. Accumulated dividends unpaid to last March were 24½ per cent. on the first preferred and 28 per cent. on the second preferred.

The stocks are inactive, present quotations on the Curb being about as follows: First preferred, 74-78; second preferred, 47-50; common, 14-15.

The preferred stocks, with their accumulation of back dividends, represent a speculative investment of some promise. The second preferred, paying 8 per cent. against 7 per cent. for the first, looks relatively the cheaper, in view of the fact that the dividend requirement annually for the first preferred is less than $280,000. The common is highly speculative, but its movements will of course sympathize to some extent with those of the preferred issues.

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

CANADIAN CAR—Report—Shows that bank loans have been paid off and that those of subsidiaries aggregate less than $1,000,000. Net profits in April, after interest on bonds, etc., were largest in history of company and surplus earnings for seven months of fiscal year were $2,000,000 exclusive of government war taxes. Present inventories approximate $5,000,000 per month, and with railway and government regulation uncertainties necessitate strong cash position.

CARNEGIE STEEL—Operating 54 Furnaces—For few days last winter company had only 29 stacks in blast, its lowest record. Efforts will be made to curtail decline that usually occurs in hot weather and to increase output of by-product coke ovens because the Government is utilizing by-products in war munitions. New by-product ovens, include 128 at Clairton in addition to 640 now practically completed; 300 ovens for Jones & Laughlin Co. in Pittsburgh, and 110 ovens at Fairmont, W. Va.

DOMINION IRON & STEEL—Merger Off—Negotiations for the merger with Nova Scotia Steel & Coal Co. have been abandoned. W. D. Ross, Vice-President of Nova Scotia Steel, says: "The deal is absolutely off. Further discussion of it in the papers as a thing likely to occur is simply waste of time. Negotiations were opened, developed to certain point, but past that there was no progress. It is out of the question now."

EASTERN STEAMSHIP—Earnings Decrease—Total revenue for four months of 1918 were $855,733, a decrease of $158,387. Deficit was $68,886, a decrease of $224,120.

EASTMAN KODAK—1917 Showed Increase—Report for 1917 shows surplus has increased over 1916 by $8,311,106, making it $26,982,024, about $94.20 per share on common. About $4,750,000 was deducted for income and excess profit tax, reducing net for 1917 over 1916 by $2,746,639. Depreciation of $365,212 in value of stocks and bonds is only loss in assets. Wage dividend of $1,000,000 the sixth of this kind, was paid to employees. This dividend for 1916 amounted to $821,000. Cash on deposit at interest was $9,292,510.

FRICK, H. C., COKE—Bonds Called—All outstanding first mortgage 5 per cent. bonds due July 1, 1918, have been called for payment as of July 1, 1918, at Fidelity Title and Trust Co., Pittsburg, trustee at 105 and accrued interest.

GILLETTE SAFETY RAZOR—Report—Filed with Corporation Commission, dated December 31, last, shows cash and accounts receivable, $3,659,014; accounts payable, $1,475,576; surplus, $838,658 and total assets and liabilities of $23,514,234.

HALIFAX SHIPBUILDING—New Shipyard—Canadian Minister of Marine has authorized announcement of construction of new shipyard at Halifax, and alteration of present dry dock to make it capable of handling ship of largest class; $3,000,000 will be spent on new plant and equipment, which will have facilities for ships 10,000-tons register.

NEWPORT NEWS SHIPBUILDING—To Build $4,000,000 Boiler Plant—All Government steamships constructed in shipyards along Atlantic cost will be equipped with boilers to be manufactured in $4,000,000 plant which Government will establish at Richmond, Va. Company will build this boiler works for Emergency Fleet Corporation and operate it. 2,000 skilled mechanics will be employed. Plant is expected to be producing boilers before close of this year. Plant will include foundry, machine shop and boiler shop, with electric lighting and power. Its cost will be furnished by Emergency Fleet Corporation, and the Newport Company will have general supervision of its construction.

PENN. SEABOARD STEEL — Earns $362,921 Net in First Quarter—For quarter ended March 31, last, gross profits were $529,206, after deducting all charges, including interest. Net, after setting aside $166,364 for depreciation and extraordinary reserves, was $362,921, or at rate of $1,500,000 year. This is over $17 a share. Practically all $2,000,000 first mortgage 6 per cent. serial bonds have been converted and it is stated that remaining bonds will be called as of December, 1918, at 101½ and interest.

STEVENS (J.) ARMS—Wins Suit—Massachusetts Supreme Court, in case against company, says plaintiffs cannot recover $500,000 sought by them as commission for securing an order for 1,000,000 rifles for the Imperial Russian government because they brought their action in "tort" instead of "contract." Plaintiffs aver that they procured a $25,000,000 order from Russia, 1,000,000 rifles at $25 each.

SYMINGTON (T. H.)—Revenues Increase—Net profit for 1917 was $836,032, as compared with $671,426 in 1916. During the year six dividends were paid on the preferred stock. Four were applied against accumulated dividends and other two covered quarters ended June 30, 1917, and Sept. 30, 1917. Preferred dividends still in arrears amount to 4% covering the period from April 1, 1912 to March 31, 1917.

TOPICS FOR TRADERS

What the Technical Position of the Market Indicates

"The Spring Rise" and Its Wane—A Willing Public—Activity on Advances and Dulness on Declines

By FRANK C. FORSYTHE

THE rapid advance in the market, which culminated on May 16, may now be designated as the "Spring Rise" of 1918. Every year for the last decade has had its sharp upward movement sometime during the spring. The recent rise was one of the sharpest, covering the greatest number of points in leading stocks of any similar advance since 1915.

Instability of Spring Rises

"Spring Rises," so-called, have been characterized in the past by their instability. The last one was no exception to the rule. In ten days the fifty-stock averages advanced as much as six points. In the following ten days nearly all of this was lost. Those who purchased stocks at any time after the advance had gotten fully under way had to be nimble traders indeed to realize any profit on their commitments. The recent advance placed the market as a whole in a peculiar position. During December, when the depression was at its worst, the fifty-stock averages registered a low at 57.43. This corresponded with a previous low at 57.47 made on July 30, 1914, the day before the closing of the Exchange on account of the outbreak of the war. The first part of the rally from the December low was made in quick order and culminated on February 1, at slightly under 71 for the fifty-stock averages. Not even the beginning of the now historical first German offensive, on March 21, could so shake the morale of the market as to bring these averages down to 65 again.

A glance at the monthly ranges of the fifty stocks for the present year, which were published in our last issue, shows a marked rising of the supporting points in the market following the turn in December and up to the beginning of the May advance. In the light of this exhibit it is easy to see why large interests were encouraged to attempt the advance which met with such a hearty public response once it got under way. Each succeeding drive against prices from December on dislodged less stock. The selling movement which began coincidental with the opening of the German March offensive was checked during the first hour of the third day. On that morning Steel opened at 86½, about two points off from its previous closing figure. During the first half hour probably 50,000 shares of Steel came to market, but it was all readily taken and the price never for an instant broke below the opening.

The Public Willing

The opening hour on March 25 marked the final selling effort until the May advance was near its culmination. As seen from a practical viewpoint the May offensive in the stock market served a double purpose. It gave important holders of securities, who had large tax returns to make before June 15, an excellent opportunity to turn a portion of their holdings into currency with which to meet their tax requirements. It also demonstrated that the public was again in a mood to participate in a bull market once it was given the opportunity, and that it had the necessary funds with which to finance its purchases. This latter information may seem unimportant to the casual observer, but it may have an important bearing upon the future course of prices. If the public is willing and ready to buy stocks generously in the spring, may they not be expected to respond with an even greater degree of enthusiasm

in the fall, which is the proverbial season for really ambitious bull campaigns?

In order to appreciate the present position of the market, as represented by the fifty-stock averages, we must view the present price level in its relation to the high of November, 1916, and the low of last December. Between these two extremes there was a gap of forty-four points. The rise in May to 74.22 constituted a recovery of about seventeen points, falling short more than three points of half way between the two extremes. A full recovery of one-half the ground lost in the grand bear market from the fall of 1916 to December, 1917, would be in the nature of a normal rally. Time and time again in the past history of the market these half way movements occur. In fact, they are so regular in their appearance, during both the large and the small market swings, that many market students count upon them. However, from the very nature of things, it may be seen that there is no real reason why the market should rally or react to this arbitrary percentage, and on that account too much reliance must not be placed in the idea. If, however, these averages should, on a subsequent rally, push through the half-way point around 80, it would be pretty good evidence that the movement would go further before reaching the culmination point.

At the time that this is written the averages are hovering around 72, which gives ample latitude for a considerable movement before the critical point can be reached. In the meantime, the market could decline. If one were to base his market judgment upon the news factors alone it would be difficult for him to be anything but a bear. The new taxation program of the Government contemplates doubling the present excess profit and income returns. According to competent authorities this means a wholesale cutting of present dividend disbursements. To expect the market to continue in an upward trend in the face of such a prospect seems indeed illogical.

A Bullish Tendency

But the fact remains that for some time past responses of the public have been to the buying side. Activity and volume develop wherever prices move upward, and the tendency is toward restriction of both when the market declines. As long as this continues the main bull movement will go on, subject, of course, to reactions. If the industrial division, on account of higher taxes and restricted earnings, loses some of its attractiveness to speculators for the rise, the long neglected railroad group may be taken up at any time as a substitute.

In the past the public has shown that it is impartial. It will buy almost anything when it is in a buying mood. But there is nothing in the action of the industrial stocks as a group to indicate that even the new taxation program, as drastic as it may prove to be, will serve to discourage public speculation.

MARKET STATISTICS

			Dow Jones Avgs.		50 Stocks			Breadth
		40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	(No. issues)
Monday,	June 3....	77.27	78.55	82.86	69.98	69.07	717,700	148
Tuesday,	" 4....	77.24	79.60	83.43	70.50	69.75	723,300	176
Wednesday,	" 5....	77.10	79.54	83.08	71.08	69.95	602,500	170
Thursday,	" 6....	77.05	78.95	82.93	70.52	69.62	546,500	188
Friday,	" 7....	76.98	78.53	82.46	69.98	69.39	386,700	160
Saturday,	" 8....	77.00	79.16	82.68	70.06	69.68	193,200	127
Monday,	" 10....	76.92	78.93	82.53	69.99	69.61	266,700	146
Tuesday,	" 11....	76.85	79.10	82.48	70.32	69.65	354,600	169
Wednesday,	" 12....	76.85	79.76	82.95	70.84	70.22	408,900	184
Thursday,	" 13....	76.84	80.53	83.38	71.23	70.65	485,600	178
Friday,	" 14....	76.71	80.61	83.27	71.37	70.82	610,400	174
Saturday,	" 15....	76.68	81.21	83.38	71.62	71.26	329,200	135

IMPORTANT DIVIDEND ANNOUNCEMENTS

To Obtain a Dividend Directly from a Company the Stock Must Be Transferred into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Last Div'd	Books Close	Payable
	A			
$8	Ahmeek Mining	$2.00 Q	*June 8	June 28
9%	Alb & Susque R R...	4½% S	*June 15	July 1
7%	Allis-Chalmers p	1¾% Q	*June 29	July 15
....	Allis-Chalmers p acc.	¾%	*June 29	July 15
7%	Amer Brake S & F p.	1 %	*Sept 20	Sept 30
7%	Amer Car & Fdy p..	1¾% Q	*June 13	July 1
8%	Amer Car & Fdy c...	2 % Q	*June 13	July 1
6%	Amer Chicle p	1½% Q	*June 20	July 1
6%	Amer Cigar p.........	1½% Q	*June 15	July 1
6%	Am Gas & Elec p....	1½% Q	*July 15	Aug. 1
10%	Am Gas & Elec c...	2½% Q	*June 17	July 1
....	Am Gas & Elec c ex.	2 %	*June 13	July 1
$3.60	Am Inter Corp p....	$0.90	*June 15	June 29
6%	Amer Smelt p A....	1½% Q	*June 14	July 1
5%	Amer Smelt p B.....	1¼% Q	*June 14	July 1
6%	Amer Snuff p.........	1½% Q	*June 15	July 1
12%	Amer Snuff c.........	3 % Q	*June 15	July 1
6%	Amer Tobacco p.....	1½% Q	*June 15	July 1
7%	Amer Woolen p.......	1¾% Q	*June 14	July 15
5%	Amer Woolen c.......	1¼% Q	*June 14	July 15
7%	Asheville P & L Co p.	1¾% Q	*June 15	July 1
5%	Associated Oil	1¼% Q	*June 29	July 15
5%	Atch Top & S Fe p.	2½% S	*June 27	Aug. 1
	B			
7%	Barrett Co p.........	1¾% Q	*July 1	July 15
7%	Barrett Co c...........	1¾% Q	*June 18	July 1
	C			
7%	California Petrol p...	1¾% Q	*June 20	July 1
7%	Can Car & Fdy Co p	3½%	*June 15	July 15
7%	Can Loco p	1¾% Q	*June 15	July 1
6%	Can Loco c	1½% Q	*June 15	July 2
7%	Case (J I) Thresh p..	1¾% Q	*June 10	July 1
8%	Celluloid Co	2 % Q	*June 14	June 29
12%	Chandler Motor Car.	3 % Q	*June 18	June 29
8%	Chic Burl & Q.......	2 % Q	*June 19	June 29
8%	Chi & North'w p....	2 % Q	*June 14	July 1
7%	Chi & North'w c.....	1¾% Q	*June 14	July 1
$4	Chino Copper	$1.00 Q	*June 14	June 29
7%	Cluett Peabody & Co p	1¾% Q	*June 20	July 1
6%	Consumers' Power p.	1½% Q	*June 18	July 1
7%	Continental Can p...	1¾% Q	*June 20	July 1
6%	Continental Can c...	1½% Q	*June 20	July 1
7%	Cuba Cane Sugar p...	1¾% Q	*June 15	July 1
7%	Cuban-Am Sugar p...	1¾% Q	*June 15	July 1
10%	Cuban-Am Sugar c...	2½% Q	*June 15	July 1
	D			
5%	Detroit & Mackinac p	2½% S	*June 15	July 1
5%	Dominion Steel Corp c	1¼% Q	*June 5	July 1
6%	Du Pont (EI) deb st	1½% Q	*July 10	July 25
5%	Du Pont (EI) p.....	1¼% Q	*July 20	Aug. 1
6%	Du Pont (EI) c.....	1½% Q	*July 20	Aug. 1
	E			
6%	Eastern Tex Elec Co p.	$3.00 S	*June 14	July 1
5%	Eastern Tex Elec Co c.	$2.50 S	*June 14	July 1
4%	Elect Stor Battery p	1 % Q	*June 17	July 1
4%	Elec Stor Battery c.	1 % Q	*June 17	July 1
	F			
6%	Fire Tire & Rub Co p.	1½% Q	*July 1	July 15
	G			
....	Gt Nor Iron ben ctz.	$1.00	*June 10	June 27
	H			
7%	Hart Schaf & Marx p.	1¾% Q	*June 18	June 29
7%	Helme (Geo W) p...	1¾% Q	*June 14	July 1
10%	Helme (Geo W) c...	2½% Q	*June 14	July 1
8%	Hercules Powder c...	2 % Q	*June 15	June 25
....	Hercules Powder c ex	2 %	*June 15	June 25
	I			
4%	Illinois Central	2 % S	June 11	July 1
6%	Ingersoll-Rand p ...	3 % S	*June 15	July 1
7%	Inter Harv N J c...	1¾% Q	*June 25	July 15
7%	Internat Silver p....	1¾% Q	....	July 1
	K			
6%	Kelly-Spring Tire p.	1½% Q	*June 15	July 1
7%	Kresge (S S) Co p..	1¾% Q	*June 15	July 1
5%	Kresge (S S) Co c..	2½% S	*June 15	July 1
	L			
10%	Lehigh Val R R p...	2½% Q	*June 15	July 1
10%	Lehigh Val R R c...	2½% Q	*June 15	July 1
7%	Loose-Wiles Bis 1 p.	1¾% Q	*June 17	July 1
7%	Lorillard (P) Co p..	1¾% Q	*June 15	July 1
12%	Lorillard (P) Co c..	3 % Q	*June 15	July 1
	M			
7%	Manhattan Shirt p..	1¾% Q	*June 21	July 1
7%	Manhattan Elec S 1 p	1¾% Q	*June 20	July 1
7%	Manhattan Elec S 2 p	1¾% Q	*June 20	July 1
4%	Manhattan Elec S c..	1 % Q	*June 20	July 1
7%	May Dept Stores p..	1¾% Q	*June 17	July 1
7%	Montgomery Ward p.	1¾% Q	*June 20	July 1
	N			
$3	Nevada Cons Cop....	$0.75 Q	*June 14	June 29
5%	N Y Lack & W.....	1¼% Q	*June 15	July 1
	O			
5%	Ohio Cities Gas p...	1¼% Q	*June 15	July 1
10%	Okla Pro & Ref.....	2½% Q	*June 15	June 29
6%	Otis Elevator p......	1½% Q	*June 29	July 15
5%	Otis Elevator c......	1¼% Q	*June 29	July 15
7%	Owens Bottle p......	1¾% Q	*June 22	July 1
6%	Owens Bottle c	1½% Q	*June 22	July 1
....	Owens Bottle c ex..	$0.50	*June 22	July 1
	P			
5%	Penn Wat & Power.	1¼% Q	*June 19	July 1
7%	Pettibone-Mulliken 1 p	1¾% Q	*June 20	July 1
7%	Pettibone-Mulliken 2 p	1¾% Q	*June 20	July 1
8%	Pierce Arrow Motor p	2 % Q	*June 14	July 1
	R			
5%	Rail Steel Spring c..	1¼% Q	*June 15	June 29
$3	Ray Consol Copper..	$0.75 Q	*June 14	June 29
7%	Reynolds (R J) Tob p	1¾% Q	*June 21	July 1
12%	Reynolds (RJ) Tob c gg	3 % Q	*June 21	July 1
	S			
7%	Sears Roebuck Co p.	1¾% Q	*June 15	July 1
7%	Shawinigan W & P..	1¾% Q	*June 27	July 10
7%	Sherwin-Williams p...	1¾% Q	*June 15	June 29
$12	So W Penn Pipe Lines	$3.00 Q	*June 15	July 1
$12	Standard Oil (Ky)..	$3.00 Q	*June 15	July 2
$5	Stutz M Car of Am.	$1.25 Q	*June 24	July 1
	T			
10%	Texas Co	2½% Q	*June 14	June 29
8%	Tidewater Oil	2 % Q	*June 15	June 29
....	Tidewater Oil ex....	2 %	*June 15	June 29
7%	Tobacco Prod Corp p	1¾% Q	*June 17	July 1
$0.40	Tonopah Belmont ..	$0.10	*June 15	July 1
7%	Twin City Rap Tr p.	1¾% Q	*June 15	July 1
	U			
6%	Union Trac (Phila)..	3 % S	*June 28	July 1
7%	United Dyewood p...	1¾% Q	*June 14	July 1
6%	United Dyewood c...	1½%	*June 14	July 1
8%	United Fruit	2 % Q	*June 20	July 15
6%	Un Light & Rys 1 p.	1½% Q	*June 15	July 1
4%	Un Light & Rys c..	1 % Q	*June 15	July 1
$10	Utah Copper	$2.50 Q	*June 14	June 29
	W			
6%	Western Elec p......	1½% Q	*June 22	June 29
10%	Western Elec c......	$2.50 Q	*June 22	June 29
7%	Western Union Tel..	1¾% Q	*June 20	July 15
7%	Willys-Overland p....	1¾% Q	*June 20	July 1
	Y			
10%	Yale & Towne Mfg...	2½% Q	*June 21	July 1

* Payable to stockholders of record of this date.
gg Payable in scrip.
ex Extra dividend.